MODERN COMMERCIAL TEXT-BOOKS

FOR USE IN SCHOOLS AND COLLEGES

AND FOR MEN OF BUSINESS

EDITED BY LAWRENCE R. DICKSEE, M.COM., F.C.A.

Formerly Professor of Accounting at the University of Birmingham, now at the London School of Economics (University of London)

BOOK-KEEPING

AND

ACCOUNTS

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A TEXT-BOOK FOR STUDENTS

BY

Red

L. CUTHBERT CROPPER

FELLOW OF THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES; SENIOR EXAMINER IN BOOK-KEEPING TO THE LONDON CHAMBER OF COMMERCE; AN EXAMINER TO THE ROYAL SOCIETY OF ARTS, AND FORMERLY A LECTURER TO THE CHARTERED ACCOUNTANT STUDENTS SOCIETY OF LONDON

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PREFACE

The author feels that some apology is due from him for adding yet another to the large number of works on Book-keeping which already exist. The only excuse he has to offer is that considerable pressure was brought to bear upon him to undertake the work. It was urged that his somewhat extensive experience as an examiner and lecturer should enable him to appreciate, and deal helpfully with, the difficulties presented by the subject to the average student.

It is not for the author to judge whether he has benefited by this experience sufficiently to justify the appearance of this treatise. He does, however, claim to have made every endeavour to explain whatever knowledge he has of the subject in as simple and concise a manner as possible. Those doubts and difficulties which experience has shown to be very real and troublesome to the examination candidate have been especially kept in view, and, in dealing with them, earnest attempt has been made to achieve clearness even at the risk of platitude and iteration.

It would be a matter of regret to the author if this treatise should come to be regarded merely as an aid to the successful passing in examinations. It is hoped that it may be found to possess real educative value, especially in the elucidation of those preliminary stages through which all book-keeping transactions must pass before their final destination is reached. The principles and details which underlie and govern these preliminaries are of vital importance to the student who is to enter commercial life.

It becomes increasingly evident from the examination work of the present day that many students have acquired knowledge for examination purposes in a scrappy and ill-digested form, the eagerness to obtain examination certificates having apparently predominated over the far more important necessity of laying sound foundations for future success in life.

The limited leisure at the disposal of the author would have greatly delayed the accomplishment of the work without the able and loyal assistance rendered by Mr. Stanley G. Smith, A.C.A., "Final" Prizeman, Institute of Chartered Accountants, a former pupil of the author's.

L. C. C.

16, *Finsbury Circus,*
London, E.C.

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BOOK-KEEPING AND ACCOUNTS

CHAPTER I

ELEMENTARY THEORY

BOOK-KEEPING has been defined on so many occasions for the benefit of the student that it is difficult, and indeed unnecessary, to find anything new to say in the way of definition; it has been well and briefly described as "the art of recording business transactions with the view of having a permanent record of them and of showing their effect upon wealth." Alternatively, book-keeping may be described as the science of recording transactions in money or money's worth in such a manner that, at any subsequent date, their nature and effect may be clearly understood, and that, when required, a combined statement of their result may be prepared.

It will be noted that the above definitions do not prescribe any particular system of book-keeping, and leave the student to infer that any method which proves itself to be efficient is capable of being employed. From the earliest days, whenever barter involved the introduction of credit, some form of book-keeping became necessary, even though it took the elementary form of the notched stick or the chalked-up score! In modern practice, however, only one system of book-keeping can be said to have become generally recognized as completely satisfactory, viz. that which is known as the "**Double Entry**" method, although other systems are still occasionally to be met with. The Double Entry method first came into general use by the Italian merchants in the fifteenth century, at a time when the cities of Northern Italy were the principal trading centres of Europe; from Venice and Genoa the system made its way to the commercial cities of the Low

Countries, finally appearing in England about the beginning of the seventeenth century. It may be claimed for Book-keeping by Double Entry that it is the only "system" worthy of general adoption, there being no other which affords the trader so complete a history of business dealings, coupled with a comprehensive statement of their result; while, on the other hand, the "Single Entry" and other anomalous methods of keeping books are usually, in practice, very little better than series of disconnected memoranda, necessarily incomplete, and often actually misleading.

An endeavour to explain the science of Book-keeping by Double Entry forms the principal object of this treatise; as, however, the "Single Entry" method is still to be met with, and candidates for examination are occasionally asked questions based upon this system, it is necessary to deal with the subject also. A brief description of the Single Entry method and its shortcomings will therefore be found in Chapter XIII.

The dealings of an individual in regard to money or money's worth are, in practice, termed his "**Transactions**," and one of the primary objects of book-keeping is their *classification* in a form readily accessible for subsequent reference.

A trader's transactions may, at the outset, be *classified* according to the person or object to whom, or to which, they relate.

If the trader deals in horses and sheep, and lends sums of money to John Smith, a preliminary division of his transactions would embrace three classes, viz. (1) those which relate to horses, (2) those which relate to sheep, and (3) those which relate to his dealings with John Smith.

The book in which a trader's transactions are recorded in a classified permanent form is called the "**Ledger.**"

Very little reflection will, however, serve to show that it would not suffice for a trader merely to record his dealings with persons or objects in classified form in a Ledger, and to do no more than this. Transactions entered into by the trader with any particular person may be of two kinds, *i. e.* they may result in making that person either (1) the debtor or (2) the creditor of the trader with whom he has dealt, whose transactions it is desired to record. Similarly, transactions in material objects may be either purchases or sales.

It is thus needful that the Ledger shall record transactions not only under their appropriate *general* heading, but also according to their aspect with regard to the trader himself. To fulfil this requirement the Ledger is ruled as under—

SPECIMEN LEDGER ACCOUNT

Dr. Cr.

A	B	C	D	E	F	G	H	I	J	K	L	M	N

The name of the person dealt with, or object dealt in, by the trader is placed at the top of the account.

Transactions are entered in columns A to G or in columns H to N, according to the relation which they bear to the trader owning the Ledger. Taking first the left-hand side of the Ledger account, columns A and B are designed to record the date (month and day) of each transaction; column C is to record the details showing the nature of the item; column D contains a page reference to the book wherein appears a preliminary and more detailed record of the transaction; while columns E, F and G contain the amount of the transaction in pounds, shillings, and pence. The right-hand side of the Ledger account is designed to provide for the entry of transactions of similar general nature to those appearing upon the left-hand side of the account, though opposite in their effect as regards the trader himself, consequently columns H to N are a repetition of those on the other side of the account, the uses of which have already been enumerated.

Columns A to G together make up what is called the "**Debit**" side of the Ledger account, and columns H to N collectively form the "**Credit**" side. Abbreviations of these words appear at the top of the account under the forms "**Dr.**" and "**Cr.**"

Ledger accounts relating to the trader's dealings with *persons* are constructed as follows—

> The account kept by the trader with each person with whom he deals is *debited* with all moneys, objects, and values paid or transferred by him to the person with whom he is dealing, and is *credited*

with everything received by the trader from such person.

Since everything paid by the trader to the other party is thus entered on the debit side, and all receipts from him are entered on the credit side, it follows that the difference between the totals of the two sides represents the net sum owing between the parties, and this sum is owing *to* or *by* the trader according as the debit side of the account is greater than the credit side, or the reverse.

An example of a "**Personal Account**" (*i.e.* an account between persons) is appended.

I. Personal Account in the Ledger of A. Brown, Merchant

Dr. JAMES BLACK **Cr.**

1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To loan to J. Black.........		10	0	0	Jan. 7	By cash, repayment of loan		10	0	0
,, 8	,, loan to J. Black.........		10	0	0	,, 11	,, cash, repayment of loan		10	0	0
,, 17	,, horse sold to J. Black.		60	0	0	,, 17	,, carriage bought from J. Black.....		80	0	0
,, 25	,, cash paid to J. Black.		10	0	0						
,, 31	,, cash paid to J. Black.		10	0	0						
		£	100	0	0			£	100	0	0

In this account, which is shown as it would be kept by A. Brown, a trader, his transactions with James Black are recorded. The first two items on the debit side of the account record loans made by A. Brown to J. Black; the third entry records the price of a horse sold to J. Black by A. Brown; and the remaining two items on this side of the account represent cash payments by A. Brown to J. Black. The items on the credit side record moneys received by A. Brown from J. Black, concluding with the purchase price of a carriage bought by A. Brown.

It will be noted that the items on each side of this account total up to the same amount, showing that the transactions between the parties result in equilibrium. If, however, the total of the credit items had exceeded the total of the debit items, it would have indicated that Black was Brown's creditor for the difference, and *vice versa.* Such differences are termed "**Balances.**"

It is customary in the case of all Ledger accounts, whatever be their nature, to add up the two sides of the

account at periodical intervals, and, after having inserted on one side the difference (or "Balance") necessary to make the two sides of the account equal in amount, to rule them off and to insert the balance afresh below the ruled lines. This "Balance brought down," as it is termed, forms the starting-point for further transactions and relieves the account of unwieldy totals.

Ledger accounts kept by a trader for the purpose of recording his transactions in *material objects* are constructed as under, viz.—

All objects (*e. g.* goods) acquired by the trader are entered by him in his Ledger on the debit (left hand) side of the account headed with the name of the object dealt in, and all objects disposed of by him are entered on the credit (right hand) side.

In the case of such accounts, the amount by which the items on the debit side of the account exceed the items on the credit side, at any particular date, represents the stock of the particular thing remaining in the trader's possession.

An example of a **Real Account** (*i. e.* an account relating to dealings in material objects) is appended, in which the balance is brought down at the close of a month in the manner previously indicated.

II. Real Account in the Ledger of A. Brown, recording his transactions in horses

Dr. HORSES **Cr.**

			£	*s.*	*d.*				£	*s.*	*d.*
1908.						1908.					
Jan. 1	To cost of 1 horse bought from A. Carr		60	0	0	Jan.17	By proceeds of 1 horse sold to J. Black..		60	0	0
„ 14	„ cost of 1 horse bought from A. Carr		70	0	0	„ 30	„ Balance carried down, 3 horses at cost...........		190	0	0
„ 14	„ cost of 1 horse bought for ready money		80	0	0						
„ 15	„ cost of 1 horse bought from J. Jones		40	0	0						
		£	250	0	0			£	250	0	0
1908.											
Jan.31	To Balance brought down, 3 horses at cost		190	0	0						

In this account the items on the debit side represent

A. Brown's purchases of horses during the month, four in all, and on the credit side appears the record of a sale. It should be observed that Brown is not here shown as having made any profit on this sale.

Referring again to the two Ledger accounts (Real and Personal) illustrated above, it will be noticed that one transaction, viz. the sale of a horse (on credit) by A. Brown to James Black on January 17, appears in each of the two accounts. Following the rules already laid down a transaction of this nature must perforce appear in A. Brown's books as under—

1. On the debit side of James Black's Personal Account.
2. On the credit side of "Horses" Account.

and in the accounts shown above this principle is carried out.

It will thus be apparent that the transaction illustrated has affected *two* Ledger accounts, and that it has affected them in opposite ways; this simple illustration will enable the student to appreciate the general nature of the main principle of Double Entry book-keeping, which is as follows—

*That every one of a trader's transactions is twofold, or two-sided in its nature, that it can be recorded simultaneously in two Ledger accounts, and that in one of these two accounts the entry must be placed on the debit side, while appearing on the credit side in the other.**

All this has been somewhat laboriously set forth, but it is of paramount importance that, at the outset of his career, the student should clearly grasp the fact that, in Double Entry book-keeping, every entry must be compensated elsewhere by some other entry of corresponding amount.

Since (as laid down above) every entry appears once on each side of the Ledger it follows, as a corollary, that the sum of the entries made on the debit side of the Ledger is equal in amount to the sum of the entries appearing on the credit side, and that, assuming the

* In order that the student may intelligently grasp the application of the Double Entry principle, it must be clearly borne in mind that each transaction stands entirely alone, on its own merits, and has no connection with other items that may follow or precede it. Unless this fact is always held in view confusion of mind is inevitable.

Ledger to have been correctly kept, these two totals, if extracted or compiled from the Ledger accounts, should agree. This fact is of the greatest value to a trader, and enables him to check the accuracy of his book-keeping. If the totals, when so extracted, fail to agree, it follows, either that the totals have been incorrectly compiled, or that the Ledger has been entered up inaccurately. It is usually a comparatively simple matter to eliminate errors made in compiling the totals of Ledger postings, and their subsequent agreement or disagreement either raises an inference (not of necessity conclusive) that the posting of the Ledger is correct, or proves, on the other hand, that it contains an error or errors. This possibility of readily ascertaining, from the disagreement of the totals of the "Trial Balance," that error exists in the Ledger is, in practice, one of the principal utilities of Double Entry book-keeping; other systems provide no such means of disclosing error.

The totals of Ledger postings extracted from a Ledger are, as has been indicated, known as the **Trial Balance.** In former days Trial Balances were compiled exactly as has been explained. It is generally customary in practice now-a-days to extract the *balances* of the various accounts contained in a Ledger instead of compiling the *totals* of the entries appearing on both sides, but inasmuch as each balance itself incorporates the effect of the postings on either side of the account in which it appears, the principle remains unchanged. In preparing Trial Balances in answer to examination questions, the student will be wise to enter balances in preference to totals.

In cases where the trader exchanges one material object for another, or enters into transactions in material objects with his debtors or creditors, only Real and Personal Accounts are involved, and sufficient has been stated already to enable the student to understand how to effect the necessary "double entry" in each instance. There remain to be considered those transactions which, at first sight, appear only to concern *one* Personal Account, or *one* Real Account, and which consequently may seem to be incapable of being resolved into the necessary form of a "double" entry. The most numerous of these transactions are those wherein—

1. The trader acquires an object, or a debt becomes due to him, without his giving any corresponding

object or property in exchange, *i.e.* where he makes a *profit*. Or where,

2. The trader parts with some object, incurs a liability, or is deprived of some portion of his property without acquiring anything in exchange which he can regard as property, *i.e.* where he incurs an expense or a *loss*.

Transactions of the above nature are entered firstly, so far as they concern Real or Personal Accounts, in such accounts on their appropriate sides, and secondly, in order to complete the double entry, in accounts termed **Nominal Accounts**, opened in the Ledger to record the opposite *aspect* of the transactions. In other words, to complete the double entry in the case of profits made or received by the trader, accounts are opened in the Ledger for such profits, and in these accounts the receipts are entered on the credit side. Conversely, losses made or expenses incurred by the trader are recorded in separate "Loss" or Expense Accounts on the debit side, again for the necessary purpose of completing the double entry.

Example.—If the trader receives in cash £20 by way of commission, and pays thereout £5 for travelling expenses, both the £20 and the £5 will appear in his Cash Account, the former on the debit side and the latter on the credit side. By opening a Ledger account for "Commission," and by crediting the £20 in this account, the double entry is completed as regards this item, and by opening a Ledger account for "Travelling Expenses," to which the £5 is debited, the double entry of the other transaction is also effected.

It would be possible for the trader to keep only *one* nominal account in his Ledger to record all his gains and losses, instead of keeping a separate nominal account to complete the double entry of each kind of loss or gain, and in point of fact many of the older books on book-keeping prescribe this method. In practice, however, this procedure is not convenient, as the trader usually desires to know the totals of each kind of loss or gain over a given period of time, and this object cannot be attained without tedious analysis if all items of gain and loss are merged more or less confusedly in one account. At the end, however, of a given period of time, *e.g.* at the end of a year, it is customary for the various accounts representing losses and gains to be combined in a new Ledger account, styled the **Profit and Loss Account,** opened for that special purpose; each separate "Loss" or

"Gain" account previously existing is closed by making an entry representing the total of the items already appearing in it, on the opposite side to that upon which such items appear, and a fresh entry for the *total* only is then made in the "Profit and Loss Account," on the same side as that upon which the original items appeared in the separate Ledger account.

These total entries in the Profit and Loss Account then replace the masses of separate items previously entered on one side or the other in the original accounts recording losses or gains.

One other nominal account is to be found in the Ledger of every trader, and in every example of Double Entry book-keeping, and remains to be explained, viz. the **Capital Account.** This account, again, arises out of the necessity for completing the "double entry" as previously explained, and it represents the difference between a trader's possessions and his indebtedness, either at the date of his commencing to keep books by Double Entry, or at any subsequent date upon which he may calculate his net worth.

When a trader commences to keep his books by Double Entry all property owned by him is entered, according to the rules previously laid down, on the debit side of the appropriate Real or Personal Account, and all sums owing by him are entered on the credit side of accounts opened under the names of his creditors. Except in the very unlikely case of the trader's total liabilities being exactly equal in amount to the total value of his possessions the total entries (for property and debtors) thus made on the debit side in his Ledger will not exactly equal the total entries (for creditors) made on the credit side; and, consequently, in order to make the double entry complete, an account headed "Capital" is opened for the difference between the trader's possessions and his liabilities. In this account is entered (on the credit side) the excess of the possessions over the liabilities at the date of opening the books, or (on the debit side) the excess, if such there be, of the trader's liabilities over his possessions; in this way it is brought about that the total balances entered on the debit side of the Ledger equal exactly the amount of the balances entered on the credit side. The balance appearing on the "Capital" Account thus represents either the net worth of the trader in his business, or the net amount by which he is insolvent.

Example.—J. Jones starts book-keeping with the following assets: (1) Shop property valued at £1,200, (2) Goods worth £300. He owes Brown & Company £600. Jones is thus really worth £1,200 + £300 − £600 = £900, and in opening his books he must (1) *debit* £1,200 to a "Shop Property" Account, (2) *debit* £300 to "Goods" Account, (3) *credit* £600 to Brown & Company's account, and finally, (4) *credit* £900 to "Capital" Account.

The net balance of the trader's combined Profit and Loss Account (cf. *supra*) is, at the date at which the latter is prepared, transferred from the Profit and Loss Account to the Capital Account, thereby recording the increase (or decrease) in the trader's net worth at the close of the period to which the Profit and Loss Account relates.

Sufficient has now been said to indicate the general nature of the accounts appearing in a Ledger kept upon the Double Entry principle, and by way of further illustration a brief example is appended. It may, however, be said for the purposes of reference that the balances appearing in a Ledger at any particular date may be classified as follows, viz.—

Debit Balances (*i. e.* balances of accounts wherein the entries on the debit side exceed those on the credit side), representing either (1) Property, (2) Debts due to the trader, or (3) Losses or expenses.

Credit Balances, representing: (4) Debts owing by the trader, (5) Profits made, or (6) The amount of the trader's capital at the last date up to which it was ascertained.

When (3) and (5) (Losses and Profits) have been combined in a single "Profit and Loss Account," whereof the net balance has been transferred to (6) (Capital), the balances on the Ledger remaining are (1) Property, (2) Debts owing to the trader, (3) Debts owing by the trader, and (6) the Trader's Capital or net worth.

A trader's gross possessions and the debts due to him are, in book-keeping, known as his **Assets**, and the debts owing by him to other persons are known as his **Liabilities**; capital may thus be crudely described as the excess of a trader's assets over his liabilities. If the trader's liabilities exceed his assets, the entry in the "Capital" Account must perforce appear on the debit side, and indicates a condition of insolvency; the use of the term "Capital" in such a case obviously becomes somewhat of a misnomer.

Example.—1. James Wilson started business on November 2, 1908, as a cycle dealer.

2. On November 3 he borrowed £100 from Robert Wilson in cash.

3. On November 4 he bought on credit 10 bicycles from the Speed Manufacturing Company at £8 each.

4. On November 5 he sold 5 bicycles to H. Brown on credit at £10 each.

5. On November 6 he paid the Speed Manufacturing Company £40 on account.

6. On November 7 he sold 5 bicycles for cash at £9 10*s*. each, receiving the money.

7. On November 9 he paid £4 cash for expenses to date.

8. On November 10 he wrote up his books and ascertained his position.

These transactions must be recorded in James Wilson's Ledger as follows—

(2) *Debit Cash Account and credit R. Wilson with* £100.

Cash having been received, and a debt to R. Wilson having been incurred.

(3) *Debit Bicycles Account and credit Speed Manufacturing Company with* £80.

Bicycles of that value having been received, and a debt to the Speed Manufacturing Company for a like amount having been incurred.

(4) *Debit H. Brown and credit Bicycles Account with* £50.

Bicycles having been parted with, and a debt from H. Brown having become due to the trader (J. Wilson).

(5) *Debit the Speed Manufacturing Company and credit Cash Account with* £40.

Cash to this amount having been parted with to the Speed Manufacturing Company.

(6) *Debit Cash Account with* £47 10*s*. *and credit Bicycles Account.*

Cash having been received, and bicycles of this value having been parted with.

(7) *Debit "Expenses" Account and credit Cash with* £4.

Cash to this amount having been parted with, without any material property having been received.

J. WILSON'S LEDGER

ACCOUNT No. 1.

Dr. **CASH** **Cr.**

			£	s.	d.				£	s.	d.
1908.						1908.					
Nov. 3	To R. Wilson, loan	3	100	0	0	Nov. 6	By Speed Manufacturing Company, payment on account......	5	40	0	0
,, 7	,, Proceeds of 5 bicycles sold for cash	2	47	10	0	,, 9	,, Expenses to date..........	6	4	0	0
						,, 10	,, Balance carried down...	✓	103	10	0
		£	147	10	0			£	147	10	0
1908.											
Nov. 10	To Balance brought down.........	✓	103	10	0						

ACCOUNT No. 2.

Dr. **BICYCLES ACCOUNT** **Cr.**

			£	s	d.				£	s.	d.
1908.						1908.					
Nov. 4	To Cost of 10 bicycles bought from Speed Manufacturing Company ...	5	80	0	0	Nov. 5	By Proceeds of 5 bicycles sold to H. Brown.......	4	50	0	0
,, 10	,, Balance transferred to Profit and Loss Account.....	7	17	10	0	,, 7	,, Proceeds of 5 bicycles sold for cash	2	47	10	0
		£	97	10	0			£	97	10	0

ACCOUNT No. 3.

Dr. **R. WILSON (Loan Account)** **Cr.**

									£	s.	d.
						1908.					
						Nov. 3	By Cash (loan)	1	100	0	0

ACCOUNT No. 4.

Dr. **H. BROWN** **Cr.**

			£	s.	d.						
1908.											
Nov. 5	To 5 Bicycles at £10 each.	2	50	0	0						

ACCOUNT No. 5.

Dr. SPEED MANUFACTURING COMPANY Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Nov. 6	To Cash on account......	1	40	0	0	Nov. 4	By 10 Bicycles at £8 each...	2	80	0	0
,, 10	,, Balance carried down...	✓	40	0	0						
		£	80	0	0			£	80	0	0
						1908.					
						Nov. 10	By Balance brought down.........	✓	40	0	0

ACCOUNT No. 6.

Dr. EXPENSES ACCOUNT Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Nov. 9	To Cash.........	1	4	0	0	Nov. 10	By Balance transferred to Profit and Loss Account ...	7	4	0	0
		£	4	0	0			£	4	0	0

ACCOUNT No. 7.

Dr. PROFIT AND LOSS ACCOUNT Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Nov. 10	To Expenses	6	4	0	0	Nov. 10	By Bicycles (gross profit on)......	2	17	10	0
,, 10	,, Net Profit transferred to Capital Account ...	8	13	10	0						
		£	17	10	0			£	17	10	0

ACCOUNT No. 8.

Dr. CAPITAL ACCOUNT Cr.

						1908.					
						Nov. 10	By Net Profit to date, transferred from Profit and Loss Account ...	7	13	10	0

The above entries (2—7) having been entered in the Ledger, James Wilson proceeds to balance and rule off his books to ascertain how he stands.

In order to prove that he has correctly posted his Ledger he first extracts his "Trial Balance," *i. e.* he copies on a separate loose sheet the balances appearing on the Ledger accounts, discriminating between those in which the excess of entries appears on the Debit side, and those in which the excess appears on the Credit side.

For example, the Cash Account on November 9th shows debit entries totalling £147 10*s.* against credit entries amounting to £44. There is thus an excess of entries on the Debit side of £103 10*s.*, which, incidentally, represents the amount of cash in hand on November 9th.

Following the above principle, J. Wilson constructs the Trial Balance as under—

TRIAL BALANCE, November 9th, 1908

Accounts	Folio	Dr. £	Dr. *s.*	Dr. *d.*	Cr. £	Cr. *s.*	Cr. *d.*
Cash	1	103	10	0			
Bicycles	2				17	10	0
R. Wilson	3				100	0	0
H. Brown	4	50	0	0			
Speed Manufacturing Company	5				40	0	0
Expenses	6	4	0	0			
		£157	10	0	£157	10	0

Since the totals of the two sides of the above Trial Balance tally, J. Wilson is justified in assuming that his Ledger posting is correct.

Turning again to the above Trial Balance, it will be noted that there are two accounts which represent, one a profit, and the other a loss, viz. "Bicycles" Account and "Expenses" Account respectively.

As long as J. Wilson possessed any stock of bicycles the account kept for bicycles disclosed a Debit balance representing an asset, but since all his bicycles have been sold the balance has become a Credit, and now represents a profit.

The balances on "Bicycles" Account and "Expenses" Account are transferred to a new account called "Profit and Loss Account," wherein they are entered on the same sides of the account as those upon which they appear in the Trial Balance.

There is, then, a balance of £13 10*s.* to the credit of the Profit and Loss Account; this balance represents the net

earnings of J. Wilson in his cycle business from November 2nd to November 10th, and must be transferred to J. Wilson's Capital Account. It is to be noted that whereas J. Wilson started business without possessing anything, and with £100 borrowed from a friend, he has now made £13 10*s*., and to that extent has become a capitalist. Following the above definition of Capital as an excess of Assets over Liabilities, the student will naturally expect to find that J. Wilson possesses, in one shape or another, £13 10*s*. more than he owes, and a reference to the Trial Balance will show this to be the case.

J. Wilson's assets are cash (£103 10*s*.) and a debt due to him by H. Brown (£50), *i. e.* £153 10*s*. in all; on the other hand, he owes a total of £140 to R. Wilson and the Speed Manufacturing Company, and the difference between these totals, in other words, his "Capital," is found to correspond with the balance (£13 10*s*.) appearing on his Capital Account as on November 10th. This, of course, is an inevitable consequence of correct Double Entry book-keeping.

Having transferred the balance of the Profit and Loss Account to the Capital Account, J. Wilson "balances" (*i.e.* rules off and brings down the balances on) his Ledger, and then constructs a fresh Trial Balance with the sides reversed. This second compilation is called a "**Balance Sheet**," and is drawn in the form which is usually adopted in English commercial practice.

J. WILSON, BALANCE SHEET, as on November 10th, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Capital Account—				Cash in Hand........	103	10	0
J. Wilson...........	13	10	0	Debtor—			
Creditors—				H. Brown..........	50	0	0
R. Wilson (Loan)..	100	0	0				
Speed Manufacturing Company................	40	0	0				
	£153	10	0		£153	10	0

In the foregoing example J. Wilson has been shown as having disposed of the whole of his bicycles before the end of his trading period; had this not been the case a slightly different procedure would have been necessary, as follows. After having extracted his Trial Balance, and before opening his Profit and Loss Account, it would have been

necessary for J. Wilson to place a value upon the bicycles remaining on hand unsold, as on the 10th of November; for the total value of the stock of bicycles thus arrived at an entry would have been passed through the books crediting the Bicycles Account for the period 2nd to 10th of November (as if the bicycles on hand had been disposed of immediately prior to closing the books for the period), and debiting a new Bicycles Account opened for the succeeding period; in this new account the "stock at cost brought forward" would have formed the first entry. The Bicycles Account for the period 2nd to 10th of November would then have been shown in such a form that all the bicycles would appear to have been disposed of, the credit balance then disclosed by the account would represent the gross profit made, just as in the account set forth on page 12, and would have been transferable to the Profit and Loss Account.

The following example illustrates the Bicycles Account of J. Wilson as it would have appeared had he, on the 7th of November, sold only four bicycles at £9 10*s.* apiece instead of five. In this case one bicycle would have remained on hand at the 10th of November, and would have required to be carried forward to a fresh bicycle account to be opened for the succeeding period. The starting balance of £8 "brought down" in the new Bicycles Account for the period commencing 11th of November would have formed one of the Ledger balances outstanding as on the 10th of November, and would, of course, have required to be taken into any Trial Balance prepared at that date, in order that the two sides might agree.

ACCOUNT NO. 2A.

BICYCLES ACCOUNT, for the period from November 2nd to November 10th, 1908

Dr. **Cr.**

1908.			£	*s.*	*d.*	1908.			£	*s.*	*d.*
Nov. 4	To cost of 10 bicycles bought from the Speed Manufacturing Company.........	5	80	0	0	Nov. 5	By proceeds of 5 bicycles sold to H. Brown........	4	50	0	0
" 10	" Balance transferred to Profit and Loss Account..............	7	16	0	0	" 7	" Proceeds of 4 bicycles sold for cash...............	2	38	0	0
						" 10	" Stock (1 bicycle) on hand carried forward to Bicycles Account for next period valued at cost (£8)................	✓	8	0	0
			£96	0	0				£96	0	0

ACCOUNT No. 2B.

BICYCLES ACCOUNT, for the period from November 11th, 1908, to............1909

Dr. **Cr.**

			£	s.	d.				£	s.	d.
1908.											
Nov. 11	To Stock (1 bicycle) brought forward from last period valued at cost..	√	8	0	0						

EXERCISES.

Enter the following transactions in a Ledger, preparing therefrom a Trial Balance, Trading and Profit and Loss Accounts, and a Balance Sheet, upon the lines laid down in Chapter I.

EXERCISE 1A.

The transactions of R. Jones were as follows:—

1909.
Jan. 1. Started business as a tea-dealer.
,, 2. Borrowed £200 from Brown Bros.
,, 3. Bought on credit tea from the Lampan Plantations, Ltd., £250.
,, 4. Paid Lampan Plantations, Ltd., on account, £150.
,, 5. Sold part of the tea to Harris & Co. on credit for £200.
,, 6. Sold the remainder of the tea by auction for cash, £105.
,, 8. Received from Harris & Co. cheque for £200.
,, 9. Paid Lampan Plantations, Ltd., further on account, £50.
,, 10. Paid expenses in cash, £5.

EXERCISE 1B.

The transactions of O. Smith were as follows:—

1909.
Feb. 1. Started business with £100 cash in hand.
,, 2. Bought for cash fancy goods, £80.
,, 3. Lent Horne & Co., £10.
,, 4. Sold to Robertson Bros. half the fancy goods bought on Feb. 2 for £70, which sum was immediately paid by Robertson Bros. to O. Smith in cash.
,, 5. Lent Horne & Co., £30.
,, 6. Paid in cash expenses, £4.
,, 8. Bought on credit fancy goods from the Western Manufacturing Company, £60.

NOTE.—Stock of goods on hand as on Feb. 8th is to be valued at cost, £100 (made up of the cost price of the remaining half of the goods, bought on Feb. 2nd, £40, plus cost of the goods bought on Feb. 9th, £60).

Exercise 1c.

The transactions of William Murray were as follows:—

1909.	
Mar. 17.	Started business with Stock of Goods valued at £150, Cash £50, and owing Wallace Brothers £85.
,, 19.	Sold to Harriman & Co., goods on credit £25 10*s.*
,, 20.	Bought goods from A. Morris upon credit, £36 5*s.*
,, 21.	Paid to A. Morris, in cash, £20 on account, and paid to Wallace Brothers £15 on account.
,, 22.	Received from Harriman & Co., cash, £25 10*s.*
,, 23.	Paid expenses, cash, £4.

Note.—Stock on hand as on March 23rd to be valued at £170.

Exercise 1d.

The transactions of G. Smith were as follows:—

1909.	
April 6.	Started business with £500, cash.
,, 7.	Bought goods for cash, £365.
,, 9.	Sold goods on credit to A. Brown, £350.
,, 11.	Paid in cash, expenses and advertising, £10.
,, 12.	Sold goods on credit to R. Jones, £19.
,, 13.	Paid in cash salaries, £2.
,, 15.	Received cash from A. Brown on account, £300.
,, 17.	Paid in cash office rent and housekeeping expenses, £2 5*s.*

Note.—Stock on hand as on April 17th, *Nil.*

Answers.

1a.	Net Profit,	£50 ;	Final Balance of Capital Account,			£50.
1b.	,,	£26 ;	,,	,,	,,	£126.
1c.	,,	£5 5*s.* ;	,,	,,	,,	£120 5*s.*
1d.	Net Loss,	£10 5*s.* ;	,,	,,	,,	£489 15*s.*

CHAPTER II

ELEMENTARY COMMERCIAL PRACTICE

Before proceeding to outline the methods of Double Entry book-keeping in its application to modern commercial practice, some brief explanation of the main features of a trader's ordinary transactions may be useful, and, indeed, is perhaps needful; this chapter is consequently utilized for the purpose of explaining certain matters of everyday occurrence in the business of almost every trader.

The custom of keeping a Banking Account, and the extensive use of cheques in paying and receiving sums of money first claim attention.

In countries where a proper system of banking cannot be said to have been established, the trader is naturally forced to keep his spare cash in the form of coined gold and silver, and to retain the same in his own possession, subject to such safeguards in the way of locks and strong boxes as circumstances will permit. Whenever money is paid to any person he is put to the trouble of counting it over, and of satisfying himself as to its weight and currency, and where large sums change hands frequently the loss of time arising out of these tedious operations is obviously considerable.

The above difficulties are surmounted, to a large extent, by the modern practice of banking. Now-a-days very few traders retain any considerable sum in specie in their possession, the majority depositing their spare money with a Bank. A Bank is an institution the object of which is the receipt of deposits of money from the community at large, coupled with the obligation of repaying the same to the depositor, or to any person or persons designated by him, when called upon to do so. The trader who thus keeps his cash balance with his Banker, instead of in his own possession, avoids the risks attendant upon the custody of a large sum in specie, and acquires the facility of being able to direct payment by the Bank of any

desired sum of money to himself or to any other person or persons within the limits of the amount held by the Bank on his behalf at any particular time. Money thus placed with a Banker to be drawn against at sight by means of cheques is said to be placed with the Banker upon "**Current Account.**"

The payments thus made by Bankers on behalf of the trader are made by them on presentation of signed orders called "**Cheques,**" which set out the sum of money to be paid and the name of the payee, and bear the trader's signature. Cheques can be made out for any sum of money, however large or small, provided always, of course, that they do not exceed the trader's credit balance with his Banker.

On the following page is a form of cheque in common use.

The left-hand portion of the above form is called the "**Counterfoil.**" When the cheque itself has been filled in it is torn off where the perforated line is shown and handed or posted to the person in whose favour it has been made payable, who is called the "**Payee.**" The details of the cheque (date, payee, what the payment is for, amount, etc.) are entered in brief on the counterfoil, and the details thus recorded are subsequently used for writing up and checking the Cash Book and for comparison, in due course, with the Bank Pass Book.

The many advantages of the cheque system of making payments have become so generally recognized that by far the greater part of a trader's receipts come to him in the form of cheques, which he, in his turn, deposits with his own Banker for collection on his behalf. Such cheques, when collected, are duly placed by the Banker to the credit of the trader's account. Similarly, almost all the modern trader's payments are made by cheque.

For the settlement of retail transactions, and for small cash payments, the use of cheques has not attained as great a vogue as is the case with wholesale transactions, and in making payments of moderate amount; most traders, consequently, are still obliged to keep small sums in coin on their premises, but the sums so held are, in the majority of cases, relatively insignificant. The name commonly applied to the small sums so held in coin for the purpose of making payments of a trifling nature is that of "**Petty Cash,**" and, in most businesses, all money except the "Petty Cash" is kept, as indicated above, in the hands of the Bankers.

COUNTERFOIL.

CHEQUE.

No. PE98343
3rd Jan 1908
Finck & Walker
In settlement
of account
£120-0-0

No. PE98343 London 3rd January 1908
The Union of London & Smiths Bank Limited
No. 2 Princes Street, Mansion House,
Pay Messrs Finck & Walker or Order
One hundred and twenty pounds
£120—0—0
S. Baker & Co.
This Cheque must be endorsed by the party to whom it is made payable.

The book supplied by a Banker to his customer containing a copy of the latter's Ledger Account with the former is called the "**Bank Pass Book**," or, briefly, the "Pass Book." This book is delivered to the customer at the time of, or soon after, the opening of his Banking Account, and is periodically returned by him to his Banker to be written up to date.

In the course of his business operations a trader frequently requires additional funds wherewith to embark upon special transactions, or to enable him to cope with the increasing magnitude of his business, and for these purposes he often obtains loans either from his Bank or among his friends at such rates of interest as he is able to bargain for. It may be assumed that, as a general rule, a Banker will not advance money to a trader without some substantial and tangible security, whereas private friends may be willing, in certain cases, to trust to the trader's reputation for ability and integrity without any special security to cover their advances. In almost every case it is the question of the presence or absence of security, specifically given to cover the loan, which fixes the rate of interest the trader is obliged to pay for the convenience extended to him; a loan may be obtainable from a Bank at from 4 to 5 per cent. if the security offered is considered to be adequate, whereas upon an unsecured loan obtained from friends or business acquaintances a higher rate of interest will, naturally, frequently be demanded.

As regards a trader's Current Account with his Banker, the latter always contemplates, in opening an account, that a sufficient balance shall be maintained by the trader to cover the Banker's expenses and to allow a small margin of profit for the trouble of keeping the account. As a general rule a permanent balance of £100 in London and £50 in the country will be regarded by the Banker as sufficient in the case of an account where no very large number of cheques are drawn, but, if the balance frequently falls below these limits, the Banker will usually make an annual charge (called a "commission") for conducting the trader's Banking Account.

According to the custom of London Bankers no interest is allowed to the trader upon money placed by him to the credit of his Current Account, but interest is allowed upon sums specifically placed with the Banker upon "**Deposit Account**." Deposit Accounts cannot be drawn upon by cheque, nor is the money usually repayable upon

demand as in the case of Current Accounts; a stated period of notice (usually seven days) is required before the withdrawal of any part of a Deposit Account balance, and upon the money entrusted with a Banker upon these terms interest, varying with the value of money for the time being, is allowed. The rate allowed is usually $1\frac{1}{2}$ per cent. below "**Bank rate,**" *i.e.* the current official discount rate of the Bank of England. A trader who finds that his Current Account shows a balance considerably in excess of his immediate future requirements can transfer a portion of the money thus lying idle from Current Account to Deposit Account, and thus obtain the advantage of the interest allowed on the latter; he can subsequently re-transfer from Deposit Account to Current Account such sums as he may need from time to time.

In the north of England, also in Scotland, a custom exists among Bankers of (1) allowing the trader interest upon sums kept with them upon Current Account, and (2) charging him a fixed rate of commission upon the total of the cheques drawn by him over any given period; this custom is perhaps more equitable to both parties than the London custom of allowing no interest upon Current Account, and of charging no commission for keeping the account unless the balance falls well below the standard which is usually expected to be maintained, but the labour involved to the Banker in calculating both interest and commission upon a large number of Current Accounts is obviously very great. The custom of allowing interest upon Current Accounts, and of charging a commission upon the drawings, exists largely, also, upon the Continent, where, however, the system of making payments by cheque has not attained the same popularity with which it is regarded in this country.

Another commercial practice requiring explanation is the method usually adopted by traders when effecting purchases and sales of the commodities in which they deal.

A trader may buy or sell goods for immediate payment, or he may sell them on the condition that he receives payment for them at some future date; in the former case the transaction is said to be "**For Cash,**" and in the latter it is said to be "**Upon Credit.**"

When a trader has sold goods **Upon Credit**, that is, when payment for them must be made on a future specified date, he usually allows any purchaser who may

desire to pay for the goods before that specified date, a percentage on the amount payable. This allowance or deduction is called a **Discount for Cash**, or **Cash Discount**. There is another kind of discount, called **Trade Discount**, which may be described as follows:—Many wholesale traders issue Price Lists (or Catalogues) in which their goods are described and advertised for sale at standard prices. From these prices certain deductions, called Trade Discounts, are made, the percentage varying in different trades.

Cash Discount and Trade Discount must not be confounded with each other; both of them may be, and frequently are, allowed to the purchaser in the same transaction. The Trade Discount reduces the catalogue price to the real selling price; while the Cash Discount is offered as an inducement to the purchaser to discharge his obligation to pay at an earlier date than he otherwise would.

The great advantage of the Trade Discount system lies in the fact that in many trades prices are subject to frequent, and often sudden, fluctuations. These fluctuations may be caused by excess of the demand over the supply of the manufactured articles; or by excess of the supply over the demand; or by an excessive or a diminished production of the raw material; or by other causes. It is obvious that the alteration of a great number of prices in a trade catalogue to meet every fluctuation would involve the necessity of continually issuing new Price Lists, with a consequent waste of time and money. On the other hand, a notification to the trader's customers that the Trade Discount has been changed is as effective and is a much quicker and more convenient method of adjusting prices.

In modern practical book-keeping, Trade Discounts are not incorporated as such in the trader's Ledger; a memorandum of their having been granted is made in the book wherein the sale is first recorded, and the transaction is passed through the Ledger as though the goods had originally been sold at the standard list price, less the Trade Discount.

Goods which, upon delivery by a seller to a purchaser, are found to be unsatisfactory in some respect, *e.g.* "not up to sample," are usually permitted to be returned by the latter to the former, and an allowance is usually made for them, calculated at the full original price agreed upon between the parties. These transactions are termed

"**Returns,**" and are styled "**Returns Inwards**" and "**Returns Outwards,**" according as they are received by or returned by the trader whose transactions are to be recorded.

An enterprising trader usually prefers to receive prompt payment of the debts due to him, even at the sacrifice of a portion of the profit on each transaction; he has his own creditors to satisfy, and, in addition, he is usually influenced by the reflection that the more rapidly he can obtain payment of the debts due to him, the more expeditiously he can embark in fresh transactions.

In order to combine the debtor's inclination to defer payment until the extreme limit of his credit with the creditor's desire for prompt settlement, a document called a "**Bill of Exchange**" has been brought into use.

A Bill of Exchange is a short written document, specimen forms of which will be found in Chap. XII, whereby a debtor promises to pay a certain sum of money at a stated future date to his creditor, or to any other person to whom his creditor may direct the money to be paid. A Bill of Exchange resembles a bank-note in so far that any *bonâ fide* holder of it can confer upon any other person the right to receive the amount of the bill at maturity by merely handing the bill to him; on the other hand, a bill differs from a bank-note in that it requires an "endorsement" (*i.e.* a signature on the back of the bill) by the transferor to complete, in many instances, the transferee's legal position.

The practical utility of a document of this nature will be obvious; in the first place, it is a written acknowledgment of indebtedness, coupled with a definite promise of payment, and for these useful characteristics alone, if for no others, a creditor usually prefers a Bill of Exchange in place of an ordinary book debt, and obtains the former as embodying the latter. Secondly, the creditor who has obtained a Bill of Exchange signed or "accepted" by his debtor, possesses a negotiable piece of paper which, if the reputation of the "acceptor" be good, is readily realizable. Banks and discount companies are always willing to "discount" (*i.e.* purchase for something less than their face value) Bills of Exchange bearing the names of well-known traders, and the possessor of an accepted bill of this high standing will have no difficulty in discounting it, and, having disposed of it, he can of course employ the proceeds in entering into fresh transactions.

It must, however, be stated that the *creditor's* signature must ordinarily appear on a Bill of Exchange as well as that of the *debtor*, although the latter is the person by whom the money is expressed to be payable; and, as a consequence of this fact, if the creditor parts with a bill accepted by his debtor, he is himself liable to pay the amount of it to any third party holding it, if the debtor fails to meet his obligation upon the presentation of the bill at maturity. The double liability which attaches to Bills of Exchange constitutes another cogent reason why good trade bills are favoured by Bankers as temporary investments.

When a debtor signs a Bill of Exchange in favour of his creditor he is said to "**accept**" it, and the creditor is said to "**draw**" upon him. As will be seen by a reference to the illustration in Chap. XII, the actual form of a Bill of Exchange is that of a letter addressed by the creditor to his debtor requesting payment of a certain sum at a fixed future date, to which request the debtor signifies his assent by writing his name across the letter itself.

From the point of view of an "acceptor" outstanding bill obligations are termed in book-keeping "**Bills Payable,**" from that of a "drawer" they are described as "**Bills Receivable.**" The deduction made by a banker when buying a Bill of Exchange from any one possessed of it is called "Discount," or "**Banker's Discount,**" and its measure is usually the interest on the face value of the bill from the date of purchase to the date of maturity at an agreed rate per cent. per annum. Bills of Exchange are usually expressed as being payable at certain fixed periods of time, *e.g.* 60 days, 90 days, etc., from the date of their original date or date of acceptance, and this period of time is termed the "**Tenor**" of any particular bill. A custom of old standing permits the acceptor three additional days in which to meet the bill, immediately following the number of days actually mentioned in the bill, and this custom of allowing three "**Days of grace**" has been incorporated in English law, although it does not prevail universally in foreign countries; a bill therefore which is expressed as being payable "ninety days after date" is consequently actually payable ninety-three days after the date of its original execution. Where the tenor of a bill is expressed in months, calendar months are to be understood, and the three days of grace must be added in order to obtain the actual date of maturity.

EXERCISES.

Exercise 2a.

1. How does a trader keep his spare cash (*a*) in primitive countries, (*b*) in countries where a banking system has been established?

2. How does a trader make payments from the sums kept by his Banker for him on Current Account?

3. Explain the characteristics of, and the difference between, a "Current Account" and a "Deposit Account" with a Bank.

4. What is the difference between a sale of goods "for cash" and "upon credit"?

5. In the case of a sale of goods by a trader to another person "on credit," explain what various methods of payment or discharge of the debt are usually open to the debtor.

6. Distinguish between "Cash Discounts" and "Trade Discounts." How are they treated in practical book-keeping?

Exercise 2b.

1. Explain the terms "Returns Inwards" and "Returns Outwards."

2. What is the use of a Bill of Exchange (1) to the person who receives it in discharge of a debt, (2) to the person who "accepts" it to satisfy a debt?

3. What is the basis upon which Bankers calculate the amount of the "discount" when buying a Bill of Exchange?

4. What is meant by the term "days of grace"?

5. A trader wishes to raise a loan to employ in his business, discuss the questions of security and rates of interest in connection with such a loan from a general standpoint.

6. Where is it customary (1) to allow interest on Current Accounts kept with a Bank, (2) not to make such allowance? Explain the working of a trader's Banking Account under each system.

Exercise 2c.

1. What is meant by the term "Bank Rate"?

2. What is meant by the term "Banker's discount"?

3. What is meant by the "tenor" of a given Bill of Exchange?

4. Explain the terms "Bills Payable" and "Bills Receivable."

5. A Bill drawn on the 2nd of January, 1909, is expressed to be payable "sixty days after date"; at what date does it mature for payment?

6. State the reason why, under ordinary circumstances, a Trader prefers to receive prompt payment of the debts due to him, even if he is compelled to forego a small portion of his profit in order to obtain it.

Exercise 2d.

1. Explain the liability of the "drawer" upon a Bill of Exchange received by him and discounted with his Bankers.

2. Explain the following expressions, an "Endorsement," a sale "for Cash" and a sale "upon Credit."

3. Explain briefly the nature and form of a Bill of Exchange.

4. How does a Bill of Exchange (*a*) resemble and (*b*) differ from a Bank-note?

5. Are "days of grace" universally allowed in the case of Bills of Exchange?

6. What are the characteristics of a "Deposit Account" with a Banker? Explain the advantages of such an account (*a*) from the depositor's and (*b*) from the Banker's point of view.

CHAPTER III

Practical Book-keeping

BOOKS OF ACCOUNT, STATISTICAL BOOKS, THE LEDGER

In Chapter I an endeavour was made to explain that, in theory, the record of the transactions of a business could be fully dealt with by means of Ledger entries. It will probably, however, be obvious to the student that, in actual practice, this method must be considerably modified in order that the same results may be attained with far greater economy of time and trouble.

At this point it is advisable to request the student to impress clearly upon his mind the fact that, in order that the books of any commercial concern may approach as nearly as possible to the maximum of usefulness and economy, three essentials must be attained, viz. (1) The utmost possible use of "original entries" (*i.e.* of entries made at the time of the occurrence of each transaction), (2) the prevention and localization of errors, (3) the suitable division of the various books for the convenience of the counting-house staff.

The books commonly employed by a trader in his business may be grouped into two classes, (1) "**Books of Account**" and (2) "**Statistical**" or "**Memorandum Books.**"

The former class consists of those books which form integral parts of the system of book-keeping employed, and includes the Ledger, together with the books which are subsidiary to it. The Ledger is always the principal book in Double Entry book-keeping, and, as has been explained above, could be designed so as to contain within itself the whole permanent record of a trader's transactions; but, in view of the multiplicity of detail occurring in any large business undertaking, and the excessive amount of clerical labour which would be required to deal with each transaction as a separate matter, various labour-saving devices have of necessity been evolved by successive generations of accountants, with the result that, in modern practice, transactions are generally

grouped together in totals for the purpose of being recorded in their final resting-place on one side or the other of the Ledger.

By entering transactions in subsidiary books, or books of original entry, a considerable amount of grouping in totals, and the consequent avoidance of unnecessary detail in the Ledger is rendered possible. This procedure is the more desirable in large business undertakings, where, as almost invariably occurs, book-keeping by Double Entry is the only method permitted, inasmuch as the entering of every transaction in duplicate would, if no system of grouping were employed, involve an almost prohibitive amount of clerical labour.

The books of original entry commonly employed in practice necessarily differ in form to a great extent according to the nature of the business in which they are used, but such books usually group themselves into two classes, viz. "Cash Books" and "Journals."

A **Cash Book** is nothing more nor less than the Cash Account in the Ledger, removed from the latter for purposes of convenience, and bound up separately.

A **Journal** is a book employed to classify or sort out entries in a form convenient for their subsequent entry in the Ledger. According to the particular department of a business, or to the special type of transaction in or for which any particular Journal is to be used, so the name given to the book varies; a Journal kept solely to record sales is called the "Sales" Journal, or the Sales Day Book; a Journal for recording purchases is called a "Purchase Book" or Journal, and so forth.

A **Book of Account** may be defined briefly as any book which forms an integral part of the system of book-keeping employed in any particular business, and consequently includes both the Ledger and the books of original entry. On the other hand, "**Statistical**" or "**Memorandum**" books are those which are used in a business as accessories to the general system of book-keeping, and which serve to explain or to elaborate the necessarily limited amount of detailed information contained in the "Books of Account."

The books employed in a warehouse, providing detailed information as to the nature, qualities, quantities and values of the various pieces of merchandise comprising a trader's stock-in-trade are of a "statistical" nature, and serve to explain or amplify the entries appearing in a trader's

Sales and Purchase Accounts in his Ledger. Similarly, factory books kept to record the successive processes to which an article is subjected in the course of its manufacture, including records of the successive costs of these processes, are "statistical."

Statistical books obviously vary greatly, both as regards form and contents, according to the purpose for which they are used; and, being of an accessory nature, any attempt to outline their nature must be postponed until the student has thoroughly grasped the principles underlying the main system of accounting as employed in Double Entry book-keeping. Consequently, the remainder of this chapter and the chapters immediately following are devoted to an explanation of the Books of Account commonly used in modern commercial book-keeping, and to some description of their many uses.

The Ledger

The student has already been informed, in Chapter I, that the whole of a trader's book-keeping could, in theory, be contained within the limits of one book, viz. the Ledger, and, in the same chapter, an endeavour was made to illustrate this fact.

In a previous part of this present chapter the student has again been told that, in practice, the Ledger is the principal book in any system of Double Entry book-keeping, but that, in order to save time and labour, certain modifications and various subsidiary books are employed. The author has found that many students experience considerable difficulty owing to the fact that, at the outset, they are taught that, in theory, a Ledger can be made the sole repository of a trader's transactions, and then that, subsequently, they are informed that in practice this principle is not adhered to. In theoretical book-keeping entry in the Ledger immediately follows upon the happening of each transaction, but in practical book-keeping transactions are entered upon their occurrence, not directly in the Ledger, but in one or more books "of original entry," from whence their entry in the Ledger is effected subsequently. Some students, it has been found, are therefore apt to wonder why an explanation of Double Entry book-keeping could not commence with a description of the books of original entry, and then proceed to a description of the Ledger, which is the final destination of all transactions, and this perplexity on their part is not wholly unreasonable. The

fact is, however, that whatever books of original entry may be employed, they are designed simply and solely to facilitate the subsequent entering up of the Ledger and to relieve the latter of unnecessary and cumbersome detail. It is to the Ledger, and to the compilation of an efficient trial balance from the Ledger, that all subsidiary books gradually work up; and, although it may seem to the student at first sight to be reversing the chronological order of events in regard to a trader's book-keeping entries, it is essential to explain the Ledger (which epitomizes the general operation of the principles of book-keeping) before explaining the peculiarities of the various books of original entry, which are subsidiary to the Ledger, and only contribute in a minor degree to the efficient working of the general scheme of book-keeping.

The Ledger may be briefly defined as a book in which a trader's transactions are "laid up" or recorded in a form easily accessible for future reference.

In practical modern book-keeping it is commonly taken for granted that the Ledger does not include the Cash and Bank Accounts, which are usually bound up separately in the form of one or more "Cash Books"; it must, however, be clearly understood that they are in essence Ledger accounts, and require to be included in a Trial Balance (see Chapter IX) just as though they were bound up in the Ledger itself.

Regarding for a moment the Cash Book and the Ledger as forming together one "Ledger," the cardinal principle of Double Entry book-keeping, it will be remembered, is that every transaction is capable of being recorded in two accounts contained in the Ledger, on the Debit (or left-hand) side in one account and on the Credit (or right-hand) side in the other. The "**Accounts**" referred to are, of course, the classified sections into which a Ledger is divided.

The effect of this essential principle may be expressed shortly as that "*every debit requires its credit, and vice versa.*"

A specimen form of a Ledger account is set out below—

Dr. SPECIMEN LEDGER ACCOUNT Cr.

			£	*s.*	*d.*				£	*s.*	*d.*

Ledger accounts may be grouped in three classes, viz.—

Personal Accounts, recording the trader's financial transactions with his debtors and creditors, and furnishing a record of the sales or loans to or purchases or loans from these persons.

Real Accounts, recording the trader's dealings in property (other than debts due to him), and material objects such as Machinery and Plant, Buildings, Patents, etc.

Nominal Accounts, recording the trader's losses, expenses, profits and gains, or, in other words, his income and expenditure, and his net worth or (in the case of a business) the amount he has embarked in the business. Sub-divisions of the Profit and Loss Account, such as Discounts, Rent, Taxes, Salaries, Wages, Office Expenses, etc., offer examples of Nominal Account items.

In the case of Personal Accounts all the individual amounts or things *paid* or *sold* to any person by the trader are entered on the debit side of the Ledger account, the person dealt with being regarded as a *debtor* to the trader for each of these various sums, irrespective of the pre-existing relations or dealings between them.

Conversely, all sums, properties, or values, *received* by the trader from any person are entered on the credit side of the account kept by the trader for the party from whom they are received. The person transferring these values or things to the trader is regarded as being the trader's *creditor* for the value of each of them, again irrespective of the position, on striking a balance, between them.

Students sometimes experience considerable difficulty in appreciating the essential rule that each transaction *must* be considered by itself, quite apart from any transactions with any particular person which may have preceded it. For instance, J. Brown, a debtor to the trader whose books are being written up, may discharge his debt (say £100) by a payment in cash. To record the entry of this cash payment the Cash Account must perforce be debited, and J. Brown must be credited. In other words, J. Brown is shown as a creditor for this £100 in his Personal Account as kept by the trader, whereas the student is sometimes at a loss to understand how this can be, inasmuch as by the payment of this sum J. Brown, on striking a balance, becomes neither a debtor nor a

creditor of the trader, the debt between them being at an end. The correct way to regard the matter is that J. Brown, when buying goods from the trader, necessarily became his debtor for, say, £100; that on paying the same amount of money to the trader he becomes his creditor for £100, and that these two separate relationships to the trader cancel one another.

In the case of "Real" Accounts (sometimes called "**Property Accounts**") all property acquired is entered on the debit side of the Ledger account, the Property Account being, so to speak, personified and regarded as a debtor to the trader for the amount invested in that direction. Conversely, when property is parted with the Property Account is credited.

"Nominal" Accounts (sometimes called "**Impersonal Accounts**"), representing losses, are debited with all losses incurred, and may, for purposes of illustration, be regarded as if they were Personal Accounts, all sums sunk in the particular type of loss being regarded as amounts paid to the imaginary person. In the case of Nominal Accounts representing profits, the entries appear on the credit side of the account, and may be likened to receipts from imaginary persons. In point of fact, to be strictly literal, the trader would head the account "*My* Office Expenses Account," "*My* Sales Account," etc.

The **Capital Account**, upon which appears the excess of the trader's assets over his liabilities, may be regarded as a species of Personal Account kept by the business for the proprietor of it, and as showing at any time the amount which the latter has invested in the concern. In the case of limited companies this supposition becomes an actual fact.

A trader's transactions are first entered, as and when they occur, in the various books of "original entry." From the books of original entry, the necessary records in the Ledger are made, and this process is called "**Posting the Ledger**."

Postings in the Ledger are made, (1) in the case of "Cash Book" entries, on the opposite side to that upon which they appear in the Cash Book; and (2) in the case of entries from "Journals," on the same side as that which is indicated in the Journal. This difference of treatment arises out of the fact that the Cash Book is really a Ledger Account itself, and contains debit entries, which must, to complete the "double entry," be posted to

the credit of some other account or accounts in the Ledger, and *vice versa*, while the Journals, as previously explained, merely arrange the entries in a convenient form for subsequent posting, both on the debit and credit sides in the Ledger itself.

Regarding the Cash Book as a Ledger Account which has been bound up separately, it may be said that if the balances of all the accounts in a Ledger are extracted and classified under the respective sides (Dr. or Cr.) upon which they appear in the Ledger, the total Debit balances must agree with the total Credit balances. If this agreement fails to ensue it follows either (1) that the extraction of the balances has been done inaccurately, or (2) that the posting of the Ledger is incorrect. For instance, if an entry be posted in the Ledger twice on the credit side instead of once to the debit and once to the credit, the Trial Balance will disagree, and will show that such an error exists, its location being then merely a matter of search.

As has been already indicated, the Ledger is often subdivided into several parts, bound up separately, for the convenience of the counting-house work, or in order to reduce the various sub-Ledgers to a convenient size. In an undertaking of some importance, for example, the following subdivisions might well be found :—(1) **Sales Ledger**, for the record of all sales to customers ; (2) **Bought Ledger**, for the record of all purchases from creditors ; (3) **Impersonal or Nominal Ledger**, for the accommodation of the various "Asset," "Reserve," and other accounts of a like nature ; (4) **Private Ledger**, for the record of the partners' "Capital" and "Drawing" Accounts, and the Profit and Loss Account. The "Sales" and "Bought" Ledgers, again, if the accounts were very numerous, would be divided alphabetically, thus: A—K, L—Z. Or, if more convenient, the subdivisions might be arranged upon geographical lines, thus : Town Sales Ledger, Country Sales Ledger, Foreign Sales Ledger, and so on.

EXERCISES.

3A.

1. What is a Ledger? Briefly discuss its position (1) in theoretical book-keeping, (2) in practical book-keeping.
2. What are (*a*) Personal Accounts, (*b*) Nominal Accounts, (*c*) Real Accounts?
3. What is a Cash Book?
4. What is the object of a Journal?

5. Why are "Books of Original Entry" employed in practical book-keeping?
6. What is meant by "Posting the Ledger"?
7. What is the difference between a "Book of Account" and a "Statistical Book"?
8. What is the cardinal principle of Double Entry book-keeping?

3B.

1. What is a trader's "Capital Account," and what does its balance represent?
2. Classify the following Ledger accounts as among (*a*) Real, (*b*) Personal, and (*c*) Nominal Accounts, viz. Capital Account, Machinery Account, Telegrams and Postages Account, J. Wilson & Co.'s Account, Discounts Received Account, Profit and Loss Account, Wages Account, R. Brown (Loan) Account, Buildings Account, Bad Debts Account, Office Expenses Account.
3. In which Ledger or other accounts, and upon which side of such accounts, would you expect to find the following items?—
   (*a*) £1,000 paid for a plot of land.
   (*b*) £50 received as commission for effecting a sale of another person's property.
   (*c*) £70 paid for wages.
   (*d*) £100 paid to-day to R. Jones in full settlement of an account for £104 12*s*. 6*d*. due to him two months hence.
   (*e*) £200 received from J. Brown in part repayment of money lent to him.
4. What are the essentials to be attained in order that the books of a commercial concern may approach as nearly as possible to the maximum of usefulness and economy?
5. Explain the term "Books of Original Entry"; what are these books?
6. Give a specimen ruling of a Ledger account (Personal), and enter therein three entries on the debit and three on the credit side, and bring down the balance.
7. Open the necessary Ledger (or other) accounts from the following items: On January 1, 1909, John Jones had cash at the Bank, £150; freehold shop value, £1,000; a horse and cart value £110; debts owing to him, £560—viz., R. Brown, £400; J. Robinson, £160; whilst he owed £670 (viz. J. Fitter, £420; R. Roberts, £250); he also had stock of goods on hand valued at £312.

3C.

Menzies Bros. of London carry on a general agency and mercantile business; Brown, Knox & Co. of Gibraltar are a firm doing business with them. From the following particulars prepare the account of Brown, Knox & Co., as it appears in Menzies Bros.' Ledger, bringing down the balance at the 31st January.

Menzies Bros.' transactions:—

1909.
Jan. 1. Balance owing by Brown, Knox & Co., £462 5*s*. 3*d*.
,, 2. Sold Brown, Knox & Co., goods on credit, £214 9*s*. 5*d*.
,, 3. Paid R. Merton on behalf of Brown, Knox & Co., £40.
,, 4. Sold Brown, Knox & Co., goods on credit, £212 10*s*. 9*d*.

1909.

Jan. 4. Purchased for cash on account of Brown, Knox & Co., 3 sewing machines at £7 each, and shipped these to Brown, Knox & Co. at Gibraltar, paying freight, £4. Charge a special commission of 5*s.* on this transaction.

,, 10. Received from Brown, Knox & Co. goods returned as unsuitable, invoiced at £12 9*s.* 6*d.*, allowed them full invoice price therefor.

,, 11. Received from Brown, Knox & Co. cheque on the Eastern Counties Bank, Ltd., £105 10*s.* 9*d.* for credit of their account.

,, 13. Brown, Knox & Co. advise that they have remitted through the Gibraltar office of the London and Peninsular Bank, Ltd., £300 to be placed to the credit of their account, and enclose a sight draft for £500 drawn on Baring & Co. of London for their credit. This draft was duly honoured on presentation.

,, 14. Received from the London office of the London and Peninsular Bank, Ltd., the £300 referred to in the preceding paragraph.

,, 19. Sold Brown, Knox & Co. goods on credit, £39 2*s.* 4*d.*

,, 21. Brown, Knox & Co. forwarded a £200 Japanese Government 4½-per-cent. Bond for sale on their account; sold the same and received cheque from the stockbrokers, £195 10*s.*

,, 23. Brown, Knox & Co. requested Menzies & Co. to purchase on their account £200 London County Consolidated 3½-per-cent. Stock; purchased the same at par and paid the stockbroker £200 therefor.

,, 25. Paid on behalf of Brown, Knox & Co. the following, viz.—

To Mrs. M. Jones, £250.
To Owen Jones, £125.
To Griffith Jones, £125.

Charge Brown, Knox & Co. a special commission of 10*s.* 6*d.* on the above payments to cover clerk's travelling expenses and time occupied in making inquiries as to the foregoing payments.

,, 29. Received from Albert Heather £15 in cash, to be placed to the credit of Brown, Knox & Co.

3D.

Open Ledger accounts with the following balances under date January 1st, 1909. Stock of Timber, £500; Cash at Bank, £600; Bill Receivable in hand, O. Child, due January 3rd, £100; Debtor, B. Nugent, £32 10*s.* R. Jones' Capital Account, £1,232 10*s.* Post by double entry the following transactions and prepare a Trial Balance upon their completion.

1909.

Jan. 1. Bought a cargo of timber from V. Oscarsson, gross, £385, less 10 per cent. trade discount. Paid V. Oscarsson by cheque £340 in settlement of account.

1909.

Jan. 2. Sold to Smith Bros., on credit, timber, £262 15s. Drew on Smith Bros. at 3 months for £200 on account of the above sale.

,, 3. Discounted Smith Bros.' draft with the Bank, being charged Bankers' discount, £2.

,, 3. Sold timber for cash, £200, paid the same to the Bank.

,, 3. O. Child's bill, £100, due to-day, paid through the Bank.

,, 4. Paid by cheque for office furniture purchased, £25.

,, 4. Drew from Bank £4 10*s*. in cash, and employed the same in paying wages for the week.

,, 5. Bought for cash a cargo of timber ex. s.s. *Léonie* for £325 net.

,, 5. Paid by cheque electric light bill, £4 6*s*.

,, 6. Received from B. Nugent cheque for £32 and banked same ; allowed him discount, 10*s*.

Answers.—3B (7). Capital, £1,462.

3C. Debit Balance of Account, Jan. 31st, £565 13*s*

3D. Trial Balance Totals, £1,238 10*s*.

CHAPTER IV

THE CASH BOOK

When the principles of Double Entry book-keeping were first applied to the methods employed in recording commercial transactions, a Ledger account was kept for the purpose of recording all receipts and payments of Cash in just the same manner as separate Ledger accounts were maintained for all other types of commercial property: in these early days no other record of Cash was made. It soon became apparent that the Cash Account greatly exceeded in bulk every other Ledger account, and, of necessity, the custom consequently arose of binding the account up as a separate book. The **Cash Book** having thus come into existence as a separate book, was henceforth used as the *sole* book in which the original entries of all cash receipts and payments were recorded. Its nature, however, as an integral part of the Ledger remained unchanged, and the items appearing in it continued to form the separate halves of twofold entries, the remaining halves of the "double entries" being posted in the relative Ledger accounts upon their respective opposite sides; in other words, every entry appearing on the Debit side of the Cash Book had its corresponding Credit entry in some appropriate Ledger account, and *vice versa*.

In modern practice cash entries are first made in the Cash Book from the memoranda or counterfoils in the trader's possession, upon the debit or credit side according to their nature (receipts or payments), and the corresponding entries (to credit or debit) in the necessary Ledger accounts are made as soon thereafter as is conveniently possible.

The balance of the Cash Book, at any date, shows the amount of money which should be in the trader's possession.

A specimen ruling of an elementary Cash Book, in its simplest form, is appended. It will be noticed that the form employed is merely that of an ordinary Ledger account—

Dr. **CASH BOOK (Simple Form)** Cr.

Date.	Particulars.	Ledger Folio.	£	s.	d.	Date.	Particulars.	Ledger Folio.	£	s.	d.

The above form is designed to contain the record of receipts and payments in money, *i.e.* actual coin; but if, as is now usual, and as has been indicated in Chapter II, the trader keeps none of his money in his own possession, but pays all his receipts into his Bank and effects all his payments by means of cheques, the form of Cash Book given above will serve equally well to record the trader's Banking transactions. All sums paid to the Bank in such a case are entered on the debit side, and all cheques drawn appear on the credit side; the balance of the Cash Book will show, at any date, the amount held by the Banker on behalf of the trader, *i.e.* his "**Bank Balance.**"

A specimen form of Cash Book, utilized to record the

CASH BOOK

Dr. **(Recording Bank Transactions only).** Cr.

Date.	Particulars.	Ledger Folio.	£	s.	d.	Date.	Particulars.	Ledger Folio.	£	s.	d.
1908.						1908.					
Oct. 1	To Balance at Bank		100	0	0	Oct. 4	By *Wilson, Bros.*—Cheque on account	16	25	0	0
„ 2	„ *W. Brown*—Payment on account......	24	30	0	0	„ 5	„ *Plant and Machinery Account*—Cost of Gas Engine	21	50	0	0
„ 3	„ *R. Jones*—In settlement of account......	36	20	0	0	„ 5	„ Balance carried down...	✓	75	0	0
		£	150	0	0			£	150	0	0
1908.											
Oct. 5	To Balance brought down.......	✓	75	0	0						

trader's Bank transactions, is set out above. The typical transactions entered in the form will explain themselves.

The particulars contained in the columns of this Cash Book are those which will ultimately appear in the trader's Bank Pass Book, and it will be obvious to the student that there will therefore be no need to keep a Bank Account in the Ledger.

In practical experience, certain businesses will not infrequently be met with in which the owner of the undertaking keeps the greater part of his money with his Banker, but is nevertheless obliged to retain some ready cash in hand at his office; for instance, in undertakings where the receipts from debtors are partly in the form of cheques and partly in coin, and in cases where occasional payments in cash are required.

To meet the needs of such businesses a composite form of Cash Book is necessarily employed, containing two money columns on each side, designed to record receipts and payments both in cash and through the Banker. Apart from the necessary difference in form there is no change whatever in the principle, or the uses, of this style of Cash Book as compared with the elementary form given above.

In this kind of Cash Book all receipts in coin or notes are entered on the debit side in the ordinary way, the amount being placed in the "Cash" money column. All payments made in cash are placed on the credit side in the "Cash" column, with their appropriate details, and payments made by cheque appear similarly in the "Bank" credit money column. Cheques received by the trader, and immediately banked by him, are entered in the Cash Book in the debit "Bank" column.

Where the trader himself pays into his Bank any sum from his office cash-box (it frequently occurs that his receipts in coin are in excess of his immediate cash requirements for payments), the amount so taken from office cash is treated as a payment made from "Cash" on the one hand and as a receipt by the "Bank" on the other hand; the sum consequently appears as a credit entry in the "Cash" column and as a debit entry, for the same amount, in the "Bank" column.

Conversely, when the trader draws cash from his Bank for the purposes of replenishing his Office Cash Balance, the matter is recorded under the guise of a payment made out of the Bank Balance and as a receipt by "Office

Cash." The necessary entry is, consequently, a credit in the "Bank" column and a receipt in the office "Cash" column.

DOUBLE COLUMN CASH BOOK

Dr. Date.	Particulars.	Ledger Folio.	Cash. £	s.	d.	Bank. £	s.	d.	Date.	Particulars.	Ledger Folio.	Cash. £	s.	d.	Bank. £	s.	d. Cr.
1908.									1908.								
Oct. 1	To Balances brought forward............	✓	60	0	0	120	0	0	Oct. 3	By Wages..................	42	48	0	0			
" 2	" J. Jones & Co.	11	20	0	0				" 3	" Cash Banked.........	C.	35	0	0			
" 2	" W. Brown..............	13	10	5	0				" 3	" Wilson Bros..........	91				94	15	0
" 2	" Smith & Co.	18				60	0	0	" 4	" Cash drawn from Bank..................	C.				10	0	0
" 3	" Cash banked.........	C.				35	0	0	" 4	" Balances carried down	✓	17	5	0	110	5	0
" 4	" Cash drawn from Bank....................	C.	10	0	0												
			£100	5	0	£215	0	0				£100	5	0	£215	0	0
1908.																	
Oct. 4	To Balances brought down	✓	17	5	0	110	5	0									

NOTE.—In some businesses, where the vouchers are kept in methodical order, as they should always be, an additional column is added on the credit side of the Cash Book, in which numbers are inserted in red ink against the payments made. Similar numbers are affixed to the corresponding vouchers. This orderly practice is of great assistance to the auditors when the Cash Book is subsequently examined by them.

A form of "two-column" Cash Book is given above, and the following specimen transactions are shown as having been passed through it—

1908.

Oct. 1. Balance of Office Cash in hand, £60; Bank Balance, £120.

„ 2. Received in cash from J. Jones, £20, and from W. Brown £10 5*s*.

Received cheque from Smith & Co., £60, and banked the same.

„ 3. Paid for wages from Office Cash, £48.

Paid from Office Cash to Bank, £35.

Drew cheque in favour of Wilson Bros. for £94 15*s*.

„ 4. Drew from Bank for Office Cash, £10.

The Cash Book is balanced off as on October 4, and the balances are then carried down.

In many businesses it is customary for the trader both to allow and receive small "Discounts" (known as "**Cash Discounts**"), when his debtors discharge their obligations to him or he himself pays his own creditors. It is frequently found in practice that, in many businesses, almost every such receipt or payment of money is accompanied by a "Discount" allowance, and, in order to avoid the posting of an unnecessary number of separate discount entries, an economical practice of passing these discount entries into the Ledger simultaneously with the cash entries out of which they arise has become general. If John Jones pays the trader £49 in full settlement of a debt of £50 due by him, it is obvious that the cash payment (£49) and the discount (£1) must in one way or another be placed to the credit of John Jones in the trader's Ledger. If the £49 only were to be posted to the credit of John Jones from the Cash Book, a separate double entry, debiting "Discount" and crediting John Jones, would be necessary, and similar entries would be needed for every one of the many corresponding discount allowances.

The custom has consequently arisen of noting in the Cash Book all such discounts allowed or received, and of posting to the appropriate Personal Account in the Ledger both the cash passing and the discount allowed in one sum. Under this method the discount is entered in the Personal Account in the Ledger in company with the cash payment, and the relation between the two items is readily seen. At the end of any particular period the total discounts so allowed and received are added up in the Cash Book and posted in one total

to the debit or credit of the "Discount Account" in the Ledger, thus completing the double entry. The economy of time and labour thus effected will be obvious to the student.

An example may serve to make the principle thus described more readily understood. Taking again the transaction with J. Jones given above, the entries which, under the system of noting discounts in the Cash Book, take place would be as follows—

1. The receipt of *£49* is *debited* in the Cash Book.
2. A note is made in the Cash Book (in the column provided for that purpose) that £1 discount has been allowed to J. Jones.
3. *£50* ("Cash and Discount") is *credited* to J. Jones's Personal Account in the Ledger.
4. At a subsequent date all the discounts allowed, *including the £1* on this transaction, are *debited* to the "Discount Account" in the Ledger.

In this way £50 is, under one guise or another, posted on each side of the Ledger (remembering, of course, that the Cash Book is a Ledger account), and the double entry is thus complete.

A similar method is adopted in dealing with the discount received by the trader on the cash payments made by him. In this instance the total debit to the trader's creditor both for cash paid to him and discount allowed by him on the payment appears in the creditor's personal Ledger account; the credit entry in the Cash Book for the cash paid, plus the ultimate credit entry in the Discount Account for the total discounts received, completes the necessary double entry.

A specimen form of Cash Book, including a memorandum column for noting discounts on each side, is appended. The "memorandum" nature of the discount columns must be clearly borne in mind; the debit column represents discounts *allowed*, and its total is destined to be posted ultimately to the *debit* of the "Discount Account"; and, in the case of discounts *received*, the total appearing in the credit discount column is to be posted to the *credit* of the "Discount Account." If the discount columns were to form part of the Cash Book in the same manner that the "Cash" and "Bank" columns form part of it, one would naturally expect to find the contra entries for their totals appearing on the *opposite* sides of the Ledger,

but inasmuch as they are merely "memorandum" columns, the general rule of posting from the debit side of the Cash Book to the credit side of the Ledger does not apply to these totals. The individual items appearing in the discount columns are posted to the appropriate Personal Accounts in the Ledger (in company with the cash passing) upon the opposite sides to those upon which they appear in the Cash Book, and at the end of a given period the total of these allowances is posted in the Ledger in the Discount Account upon the same side as that upon which they appear in the Cash Book.

The following transactions are entered, by way of illustration, in the appended specimen three-column Cash Book—

1908.

Oct. 1. Cash Balance, £60; Bank Balance, £105.

„ 2. Received from J. Jones £40 in cash and allowed him discount, £2.

„ 3. Paid £70 to the Bank from Office Cash.

„ 4. Drew a cheque in favour of W. Brown for £62; discount received, £3.

„ 5. Received a cheque from J. Jones, £30; allowed him discount, £3, and banked the cheque.

The Cash Book is balanced as on October 5, when the balances are brought down; at this date the £5 and £3, representing the debit and credit totals of tho "Discount" columns, are then posted respectively to the debit and credit of the "Discount Account" in the Ledger. Occasionally, in practice, the *Balance* only of the discount columns (*i. e.* the difference between their totals) is posted, but it will, in most cases, be found preferable to post the *totals* of each column in the Discount Account.

Other specimen forms of Cash Books will be given in due course to illustrate the various uses to which extra columns in the Cash Book can be put. In common with all the other books employed in modern commercial undertakings, one of the salient points of a good Cash Book is to facilitate the balancing of the books and to economise labour.

The employee to whom, in a mercantile office, the work of keeping the Cash Book, and of supervising the cash transactions is entrusted is generally styled the "**Cashier.**" His duties comprise the receipt of all sums of money

coming into the office and the subsequent payment into the Bank Account of such of them as are not to be retained in the office cash-box, together with the custody

THREE COLUMN CASH BOOK

Dr.

Date.	Particulars.	Ledger Folio.	Discount (allowed). £ s. d.	Cash (received). £ s. d.	Bank (paid in). £ s. d.
1908. Oct. 1	To Balances brought forward	✓		60 0 0	105 0 0
,, 2	,, J. Jones	21	2 0 0	40 0 0	
,, 3	,, Cash banked.	C.			70 0 0
,, 5	,, J. Jones.......	41	3 0 0		30 0 0
			£5 0 0	£100 0 0	£205 0 0
			(61)		
1908. Oct. 5	To Balances brought down	✓		30 0 0	143 0 0

Cr.

Date.	Particulars.	Ledger Folio.	Discount (received). £ s. d.	Cash (paid). £ s. d.	Bank (drawn out). £ s. d.
1908. Oct. 3	By Cash banked	C.		70 0 0	
,, 4	,, W. Brown.....	92	3 0 0		62 0 0
,, 4	,, Balance carried down......	✓		30 0 0	143 0 0
			£3 0 0	£100 0 0	£205 0 0
			(62)		

of the latter, and the drawing of cheques for signature. When the "cash" transactions are at all numerous the Cashier should make a point of balancing his Cash Book

daily. It will usually be advantageous also to keep a small memorandum book showing the details composing the daily balancing of cash for future reference in case of need. It is also the cashier's duty to obtain from the Bankers the Bank Pass Book at regular intervals, and to prepare statements showing that the balance shown by the Pass Book tallies with the balance as shown by the "Bank" columns of the Cash Book kept by him. It is always desirable that the Cashier, who handles the cash received from customers and others, should have no part in the writing up of the Ledgers wherein the customers' accounts are recorded, and that, as far as he is concerned, the Ledgers and the posting of them should be a matter in which he has neither part nor control.

The Cashier is also responsible for the correctness of all the discounts allowed to customers upon payment of their accounts, and he is also charged with seeing that his employers themselves obtain the full benefit of all the customary discount allowances obtainable from creditors when the amounts owing to the latter are discharged.

As indicated above one of the duties of the cashier consists in the periodical "reconciliation" of the Cash Book with the Bank Pass Book. The amount shown by the Cash Book as remaining in the hands of the Bank at any particular time rarely tallies exactly with the balance shown by the Banker's Pass Book at the same date. This apparent discrepancy arises from the fact that (*a*) short periods of time must necessarily elapse between the drawing of a cheque by a firm and its subsequent payment by the Banker upon whom it is drawn, and (*b*) on the other hand from the similar lapse of time which must perforce take place between the drawing and dispatch of a cheque by a customer to the firm and the date upon which such cheque is eventually credited by the Banker to whom it is entrusted for collection. In order to explain this divergence it is necessary to construct a statement, known as a "**Reconciliation Statement**," wherein the two differing balances and the outstanding items which cause them to disagree are clearly set forth. A specimen example is appended showing how this "reconciliation" is arrived at—

Example.—On December 31, 1908, the Cash Book of Messrs. Brown, Jones & Co. showed that £1,152 16*s.* 5*d.* should be in the hands of their Bankers; the latter's Pass Book, however, showed a

balance of only £624 12*s.* 8*d.*, the difference being due to the following items—

1. A cheque drawn by Brown, Jones & Co. on December 29, 1908, for £7 6*s.* 5*d.* had not yet been presented to the Bankers for payment (although it had of course been entered, when drawn, upon the credit side of the firm's Cash Book).
2. A cheque received by Brown, Jones & Co. on December 29, 1908, for £535 10*s.* 2*d.*, drawn upon Aberdeen, had not yet been "collected" by the Bankers, and consequently had not yet been placed by the latter to the credit of their customers' account with them.

These differences are expressed in the following statement—

BANK RECONCILIATION STATEMENT, December 31, 1908.

Balance as per Bank Pass Book	£624	12	8
Deduct cheque drawn, but not yet presented to Bankers for payment	7	6	5
	617	6	3
Add cheque on Aberdeen paid to Bankers on December 29, 1908, but not yet collected by them	535	10	2
Balance as per Office Cash Book	£1,152	16	5

When balancing his Cash Book (weekly or monthly as the case may be) it is usual for the Cashier to write up, in red ink, in the Cash Book itself, for future reference, the Reconciliation Statement prepared by him when agreeing the Bank columns in his Cash Book with the Bank Pass Book.

PETTY CASH BOOK

Even in businesses where all the cash receipts are paid immediately into the Bank and, where possible, all payments are made by cheque, it is usually found necessary to keep small sums of ready money in the office for the purpose of meeting those small disbursements which are practically inseparable from every business, *e.g.* postages, telegrams and office sundries. The sum so kept in hand is usually termed the **Petty Cash**, and, in practice, it may be found entrusted either to the Cashier or to a separate **Petty Cashier**, according to the amount of the work involved, to the size of the undertaking, or to the organization of the clerical staff.

The book in which the various sums drawn from the Bank and handed over to the Petty Cashier are recorded, and in which also appears the detailed record of his disbursements, is termed the **Petty Cash Book**. This

book should be specially ruled so as to show clearly the total expenditure to date upon any particular class of business expense, in order that extravagance in any direction may be readily revealed, and it must, of course, be designed so as to show the balance which, at any particular date, should exist in coin or notes in the hands of the Petty Cashier.

The expenditure made by a Petty Cashier is usually comprised almost entirely of payments for small expenses, but cases arise occasionally when small sums are expended by him, either for assets purchased or for the debit of Personal Accounts in the Ledger. The payments made by a Petty Cashier, being numerous and of a constantly recurring nature, are more convenient to deal with when collected into periodical totals, for subsequent posting to the debit of the Expense Accounts in the Ledger, by means of analysis columns provided in the Petty Cash Book; while the occasional payments for the debit of Personal or Real Ledger Accounts must usually be posted direct to the Ledger separately and in detail.

Upon the principles thus enumerated the subjoined form of the Petty Cash Book is based.

This Petty Cash Book, as far as the debit and credit total columns are concerned (Columns T1 and T2), forms an integral part of the system of accounts just in the same way that an ordinary Cash Book does. It ranks, therefore, of course, as a book of original entry, and the balance of Petty Cash on hand at any time requires inclusion in the Trial Balance in order that the latter may "agree," just as was described to be the case in reference to the balance of the Cash Book (p. 31). All the sums received by the Petty Cashier from the Chief Cashier are entered directly in Column T1 (Debit Column), while all payments made by him are recorded in Column T2 (Total Credit Column); the difference between these two columns at any time, therefore, represents the balance of Petty Cash in hand, and this figure should, of course, tally with the Petty Cashier's actual holding of notes and coin.

The Analysis Columns A to H are designed for the repetition, and analysis, of the expenditure falling under the various headings as set out at the head of these columns. The posting to the Impersonal (Expenses) Ledger Account of all petty cash expenditure made is effected by posting the totals shown at the foot of these various columns at

PETTY CASH BOOK

Dr. Date.	Dr. Details.	£ s. d.	Cr. Date.	Cr. Details.	Total. £ s. d.	Telegrams. £ s. d.	Postages. £ s. d.	Stationery. £ s. d.	Cleaning. £ s. d.	Fuel. £ s. d.	Gas and Electric Light. £ s. d.	Telephone Charges. £ s. d.	Sundries. £ s. d.	Ledger. Account.	Ledger. Amount. £ s. d.	Ledger. Folio.
1909.			1909.													
Mar. 1	Cheque	50 0 0	Mar. 1	Postage.....	0 3 6		0 3 6									
			„ 3	Brown & Co.	1 4 9			1 4 9								
			„ 6	House-keeper, cleaning, and sundries......	2 9 4				2 6 4				0 3 0			
			„ 8	H. Rose (extra discount paid him)	0 10 9									H. Rose	0 10 9	896
			„ 18	House-keeper....	6 0 2				5 4 2	0 12 0			0 4 0			
			„ 22	Telegrams.	0 5 6	0 5 6										
			„ 26	Postage	1 10 0		1 10 0									
			„ 29	Gas Co. to 31/12/08...	4 2 5						4 2 5					
			„ 30	Trunk calls for month	0 7 9							0 7 9				
			„ 30	Sundry stationery	0 1 4			0 1 4								
	Forward £	50 0 0		Forward . £	16 15 6	£0 5 6	£1 13 6	£1 6 1	£7 10 6	£0 12 0	£4 2 5	£0 7 9	£0 7 0		£0 10 9	
		T1			T2	A	B	C	D	E	F	G	H		I	

Notes.—If there were no further transactions during March, the following events would take place at the end of the month: (1) £16 15*s.* 6*d.* would be drawn from Bank and paid into the Petty Cash, thus raising the Petty Cashier's balance to its original figure of £50. (2) The totals of Columns A to H would be debited to their relative Impersonal Accounts in the Ledger. (3) The separate amount in Column I would be debited to H. Rose's Personal Ledger Account. (4) The whole of the analysis columns would be ruled off and a balance of £50 would be brought down in the debit cash column, whereupon a fresh start would be made.

the end of any given period (usually monthly); by thus effecting a classification of expenditure simultaneously with the actual disbursement of the money, and by posting the *totals only* of the various classes of expenditure, the credits (for expenses paid) in the Petty Cash Book are offset by a moderate number of "total" debits subsequently made in the Ledger, and thus the necessary double entry is effected with the minimum expenditure of labour. This principle of summarizing transactions in order to post them to the Ledger, either in one total or in as few totals as possible, is not a new one to the student; it will be remembered that similar procedure is made use of in the case of the "discount" columns of the Cash Book: it is also used in the case of "Analyzed" Purchases Books (see Chapter V) and in other places, although the exact form under which the principle appears must necessarily differ, according to the needs of the varying books in which it is adopted.

There remains still to be explained the use of the "Ledger" columns on the extreme right-hand side of the Petty Cash Book as given above.

These columns are designed for the accommodation of any amounts paid away out of Petty Cash for the ultimate debit either of "Personal" or "Real" accounts in the trader's Ledger, *i.e.* for payments which cannot be allocated to any "expenses account," or collocated as coming under any of the classes set out in columns A to H; items of this nature consequently require posting *individually* to some special "Asset" or other account in the trader's Ledger. A not infrequent example of a payment of this type would be the purchase, out of Petty Cash, of such small tools or parts of machinery as might be immediately required in the workshop—sums expended in this manner would be inserted, not in any of the "Expenses" columns, but in the "Ledger" column, with the designation "Tools Account" or "Machinery Account," as the case might be, and the subsequent posting would be effected direct from the "Ledger" column in the Petty Cash Book to the debit of the "Tools" or "Machinery" Account in the Ledger.

The plan of having a "Ledger" column in the Petty Cash Book for the repetition of those items which need to be posted individually direct to the Ledger, is of considerable assistance to the Petty Cashier, although at first he may be inclined to regard the unavoidable repetition, before posting, as savouring of extra and unnecessary

labour; the duplication, however, on the credit side of the book in one column or another of *every* payment made enables a useful check to be effected as to the correctness of the additions of Columns A to H. Since the record of every payment as and when made is repeated in the analysis columns, the latter, if added across, should, of course, equal the total of the payments appearing in the Credit Total Column (T2). It will be obvious that it is essential that the additions of the expenses columns A to H should be correctly made, as otherwise the Trial Balance would be rendered incapable of agreement.

The best method of conducting and safeguarding the keeping of the Petty Cash is that known as the "**Imprest**" **System.** Under this system a round sum, estimated to be sufficient to provide for all petty expenditure for a given period (*e.g.* a month) is placed in the Petty Cashier's hands at the outset, and, at the end of the specified period, the exact sum he has spent during that period is repaid to him, *i.e.* the sum necessary to restore the balance he has remaining in hand to its original round sum. For example, if a £50 balance were agreed upon as sufficient to cover the anticipated expenditure for a month, this sum would be drawn from the Bank upon the inception of the scheme and placed in the Petty Cashier's hands, the necessary recording entries being passed through the General Cash Book (on the credit side) and the Petty Cash Book (on the debit side). If at the end of the first month the Petty Cashier had spent £34 5*s.* 6*d.*, as set forth in detail in the "analysis" or "expense" columns of his Petty Cash Book, a cheque for this sum, drawn on the trader's banking account, would be handed to him. At the same time the totals of the analysis columns would be ruled off and posted to the debit of their respective Impersonal Accounts in the Trader's Ledger, and, with the bringing down of a balance of £50 at the commencement of the ensuing month, a fresh start in all respects would be made. The same process would be repeated at the close of each month. If the original estimate of £50 subsequently proved to be too low, or too high, for the requirements of the business, the limit would, of course, be raised or reduced as was deemed expedient at any time, further round sums being contributed to Petty Cash from the Bank account, or payments being made from the former to the latter to meet the needs of the case.

EXERCISES.

4A.

From the following particulars compile the Cash Book of J. Browning (ruling the necessary form), and bring down the closing balance of Cash on hand as on February 10th, 1909.

1909.		£	s.	d.
Feb. 1.	Cash in hand	84	6	1
,, 2.	Received from Wilson & Co.	17	2	4
,, 3.	Paid to Harris & Sons, Ltd.	6	0	9
,, 4.	Paid for Electric Light to Dec. 31	2	13	6
,, 5.	Paid for Goods bought for Cash	19	10	10
,, 6.	Received from Wilson & Co.	26	4	9
,, 8.	Received for old materials sold	3	17	4
,, 9.	Lent V. Smith	5	0	0
,, 10.	Owen Roberts repaid the amount lent to him on Dec. 1st last (principal)	10	0	0
	With Interest to date	0	4	0

4B.

From the following particulars compile the Cash Book of Hall, Warren & Co., ruling the necessary form so as to include "Cash," "Bank," and "Discount" columns, and bring down the balances on March 14th, 1909.

1909.		£	s.	d.
March 1.	Cash in Hand	82	4	9
,, 1.	Balance at the Bank	362	0	5
,, 2.	Paid Salaries for the month from Office Cash	22	3	9
,, 4.	Paid to Spooner & Co., Ltd., by cheque	260	3	9
	Being allowed discount	1	6	0
,, 5.	Received from Reid & Co. on account (by cheque paid direct to Bankers)	400	0	0
	Allowed them discount	8	0	0
,, 6.	Bought goods for cash (paid from Office Cash)	5	4	9
,, 7.	Paid from Office Cash into Bank	50	0	0
,, 8.	Paid Sharp Bros. by cheque	64	2	9
	Being allowed discount	3	2	0
,, 9.	Received from Harris Bros. in coin and notes	25	0	0
,, 11.	Paid from Office Cash into Bank	20	0	0
,, 12.	Received from Chase Bros. cheque and paid same to Bank	61	9	3
,, 13.	Chase Bros.' cheque returned by Bankers, the same having been dishonoured	61	9	3
,, 14.	Received from Chase Bros. in coin and notes in exchange for their dishonoured cheque	61	9	3

4c.

Rule a form of Petty Cash Book containing analysis columns for the following kinds of Petty Cash Expenditure, viz. Stationery, Postages, Telegrams, Carriage, Travelling Expenses, Cleaning, Lighting, Firing, together with a column for such payments as may require to be posted direct to the Ledger, and enter therein the following transactions, bringing down the balance on hand at the conclusion and showing how the necessary double entry is effected throughout.

1909.				£	s.	d.
March	1.	Received cheque from the chief cashier for starting balance, and cashed same		50	0	0
,,	1.	Paid for Postages		0	3	6
,,	1.	,,	Telegram to Liverpool . .	0	1	4
,,	2.	,,	Electric Light Bill to December 31 last	2	6	9
,,	2.	,,	Housekeeper's Book for Cleaning	0	7	6
,,	2.	,,	Housekeeper's Book for Fires	0	3	6
,,	3.	,,	Fares to Euston . . .	0	4	9
,,	3.	,,	Carriage of samples sent to Brown & Co. . . .	0	13	4
,,	4.	,,	Postages for March 2, 3, and 4	0	10	5
,,	4.	,,	Telegram to Paris . . .	0	8	4
,,	4.	,,	New Copying Press (Debit Office Furniture Account) .	2	10	9
,,	5.	,,	Postages	0	1	3
,,	6.	,,	Bus Fares to Charing Cross .	0	0	4
,,	8.	,,	Postages, 6th and 8th . .	0	4	11
,,	9.	,,	Telegram to Aberdeen . .	0	3	4
,,	9.	,,	Housekeeper's Book for Cleaning	0	8	9
,,	9.	,,	Housekeeper's Book for Fires .	0	3	9
,,	10.	,,	New Typewriter (Debit Office Furniture Account) . .	12	10	0
,,	10.	,,	Typewriting Paper . .	0	8	10
,,	11.	,,	Postages, 9th and 10th . .	0	4	6
,,	12.	,,	,, 11th and 12th .	0	3	5
,,	12.	,,	Fares to High Barnet . .	0	4	3

4d.

1. What is a Cash Book? Compare its characteristics with those of a Ledger account.

2. Explain (*a*) the form and (*b*) the special utilities of each of the following forms of Cash Book—

(1) The Single Column Cash Book.
(2) The Double Column Cash Book.
(3) The Three Column Cash Book.

3. Explain the practical working of a Cash Book from the standpoint of the employee to whom, in a mercantile office, it is entrusted. Discuss the employee's duties and responsibilities.

4. From the following particulars compile a Statement showing

how the difference between the Cash Book balance and the balance shown in the Bank Pass Book is reconciled—

	£	s.	d.
Pass Book balance, December 31, 1909 . .	1,104	16	2
Cheques drawn prior to December 31, 1909, but not presented until after that date—			
A. B.	21	9	4
C. D.	800	0	0
E. F.	1	2	5
Country cheques paid into the Bank on December 29, 1909, not collected until January 1, 1910	16	3	11
Cash Book balance, December 31, 1909 . .	298	8	4

5. Explain the working of a Petty Cash Book of "analysis" form in a case where the Imprest System is adopted. Discuss the advantages of the latter system.

Answers.—4A. Balance of Cash in hand, February 10th, £108 9*s.* 5*d.*

4B. Balances, March 14th, 1909:—Discount (Dr.), £8; Cr., £4 8*s.*; Cash, £71 5*s.* 6*d.*; Bank, £507 13*s.* 11*d.*

4C. Balance in hand, March 12th, £27 16*s.* 6*d.*

CHAPTER V

THE PURCHASES BOOK

(INVOICE BOOK OR BOUGHT BOOK)

THE purchases of goods made by a trader are usually found to constitute a considerable part of his everyday transactions, and, in view of the fact that, in the majority of businesses, successive purchases of goods resemble each other in almost every respect, special methods of recording them concisely and economically have become general.

By employing a system of grouping purchases of a like nature, as far as is possible, the trader is usually able to diminish the labour involved in their record in his books.

The entry necessary to be made in order to record a purchase of goods by the trader consists of a debit to the "Purchases" Account in the Ledger, coupled with a credit to the Personal Account of the seller, or a credit in the Cash Account, dependent upon whether the transaction took place "on credit" or "for cash." If every such purchase were to be made the subject of a separate double entry, the debits to the "Purchases Account" would necessarily be as numerous as the transactions, and any method by which the labour involved in their record can be reduced is, therefore, obviously to be approved.

In an ordinary business it is the purchases "on credit" which are by far the most numerous, and these transactions involve debit entries in the "Purchases Account" and credit entries in the several Personal Accounts of the various persons from whom the goods have been bought.

In order to avoid the tedious repetition of every such credit purchase in detail in the Purchases Account, a "**Purchases Book**" or "**Purchases Journal**" is employed; in this book all the purchases on credit are recorded upon their occurrence, and from it the necessary entries are

made in the Ledger upon the credit side of the Personal Accounts kept by the trader to record his transactions with the parties by whom the goods were supplied. At the end of any given period (usually monthly) this book is added up and the total of the purchases for the period is posted to the debit of the "Purchases" Account in the Ledger, and thus the necessary double entry is completed.

The effect of this procedure is that numerous successive credit entries (in the Personal Accounts) are compensated for, or completed by, one debit entry for their total (in the "Purchases" Account). This principle, of offsetting numerous entries upon one side of the Ledger by one total entry upon the other side, will be found to be extensively employed in modern book-keeping, and obviously saves much tedious and unnecessary labour.

A specimen of a "Purchases Book," in its simplest form, is appended, the transactions in which will be self-explanatory.

PURCHASES BOOK (Simple Form)

Column A	Column B	Column C	Column D			Column E		
Date.	Details.	Ledger Folio.	£	s.	d.	£	s.	d.
1908.								
Dec. 1	*Brown & Co.*—							
	Suite (Modern Sheraton)..........		85	0	0			
	Chairs, 4 at £1 10s.		6	0	0			
			91	0	0			
	Less 5 per cent. Trade Discount		4	11	0			
		36				86	9	0
„ 3	*Euston Manufacturing Company*—							
	Mahogany sideboard (Type 86, Quality B).........................		65	0	0			
	Less 10 per cent. Trade Discount		6	10	0			
		21				58	10	0
„ 5	*Wilson Bros.*—							
	Mirror, 346XY.........................	12				15	0	0
	Carried forward to next page *					£159	19	0

* At a later date the total purchases for the period are posted to the debit of the "Purchases Account" in the Ledger.

Column A of the above form is designed to contain the date upon which a purchase takes place, while Column B contains the particulars of the goods acquired and the

name of the seller, the different parcels acquired at the same time from the same person being ranged immediately underneath one another; the cost of each parcel is entered in Column D, and the total cost of the complete purchase made from the seller is extended in Column E. The total purchases are added up in the Purchases Book and carried forward from page to page until, at any desired point of time (usually each month), the total to that date is entered in the "Purchases Account" in the Ledger; thereupon a fresh start is made as regards the addition of the Purchases Book, and another total commences to be built up for entry in the Purchases Account in its turn.

The student will already have noted that the account to which the Purchases are debited is, as explained above, the Ledger account denominated "Purchases," and that the debit entry is not made immediately or directly in a Ledger account headed with the word "Goods."

Judging by the work sent in at Book-keeping Examinations, it would appear that the student is very generally taught to open a "**Goods Account**" immediately he commences to record a set of transactions in the Ledger; under this method, the Goods Account is debited with the amount of stock on hand at the commencement of trading, and the monthly (or other periodical) totals, as built up in the Purchases Book and Sales Book (including both Sales and Purchases returns), are also posted to the credit or debit of this account successively as they are compiled; this procedure, of course, satisfies the strict requirements of the theory of Double Entry book-keeping, but an account compiled upon these lines tends to become obscure in its reading, owing to the multiplicity of entries and reversing entries which appear on either side. The author has never seen an Account of this nature in actual practice.

It is preferable, in every way, to open separate Ledger accounts for "Purchases" and "Sales," for goods returned after purchase or sale by the trader, and for the initial stock of goods on hand, and, when these accounts have been completed, to build up a separate account, called a "**Trading Account**," by transferring to it the totals of these various "purchases," "sales," and other accounts which have been confined to record items of one special description. In this manner the Trading Account practically becomes a "Goods" Account in summarized form, and the totals of stock, purchases (for the period), sales (for the period), returns (for the period), closing stock,

and gross profit, stand out complete in themselves, and without losing their identity by being obscured in a multiplicity of detailed entries. Further information as to the nature and effect of a Trading Account, and as to the manner of its compilation, should be sought under the appropriate heading in Chapter IX. At this stage of the subject it will suffice to say that, in actual practice, the totals of the Purchases Book, and indeed those also of all the other books of original entry, analogous in their uses and method to the Purchases Book, are posted to separate and distinct Ledger accounts under their respective appropriate denominations, and that they are not posted to a "Goods" Account immediately they have been compiled. By means of transferring the totals of these "side" accounts into a combined Trading Account, the same effect (generally speaking) is produced as though a "Goods Account" had been kept open throughout the trading period, but the stating of the Account is more workmanlike and infinitely preferable.

It frequently occurs that a trader's business consists of two or more distinct departments, or that his purchases of goods group themselves naturally into two or more well-defined classes. In such cases the trader usually desires to be able to ascertain at any time the amounts of his purchases to date, classified under the departments to which they relate, or according to their nature, *e.g.* a trader whose operations take place in furs, woollen, and cotton goods will naturally desire to have his purchases of furs kept separate from his purchases of woollen goods, and the latter again kept distinct from his purchases of cotton goods; this division, too, is absolutely necessary if the trader wishes to ascertain what profit he is making in each department, or upon each kind of merchandise in which he deals.

To meet these requirements a more elaborate form of Purchases Book is employed, in which, besides the columns included in the example given above, additional "analysis" columns are appended. These analyses columns are in each case designed to contain the purchases made for any one department, or of any one kind of goods, and the name of the particular department or sort of goods appears at the head of its respective analysis column. The analyses columns are added up and carried forward from page to page in the same manner in which the accompanying "total" column is dealt with.

At the end of any given period of time the trader will post the total purchases to date to the debit of the Purchases Account in the Ledger, which, in its turn, will be

42 **PURCHASES BOOK** (Analyzed Form) 42

Date.	Bought From.	Particulars.	Ledger Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total. £	s.	d.
1908.															
Dec. 1	Brown & Co....	4 Jackets, seal............		121	0	0									
		3 Necklets, sable.........		45	0	0									
		2 Cases, assorted goods..					24	6	0						
		4 Packages ,,	21							18	6	0	208	12	0
,, 1	Wilson Bros....	10 Pieces sheeting........	42							7	4	2	7	4	2
,, 1	J. Higgins......	50 ,, flannel..........	84				93	6	0				93	6	0
				£166	0	0	£117	12	0	£25	10	2	£309	2	2

The entries appearing in the above specimen Purchases Book would appear in the trader's Ledger, assuming there were no more purchases in the month of December, as follows—

THE TRADER'S LEDGER (*Debit side only*).

Dr. **PURCHASES ACCOUNT**

Date.		Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total. £	s.	d.
1908.		P.J.												
Dec. 31	To Purchases for the Month..................	42	166	0	0	117	12	0	25	10	2	309	2	2

ruled in columns, every column representing a department or a particular class of goods as was the case in the Purchases Book. As has already been mentioned, and as will

be explained more fully later on in this treatise, the grand total of the entries appearing in the Purchase Account is subsequently transferred, at the close of any given period, to the debit of the "Trading Account." The Purchases Account in the Ledger can therefore be described as a temporary resting-place only, for the purposes of record and analysis, of the items appearing in it.

There is, of course, practically no limit to the extent to which analysis can be carried out by means of a Columnar Purchases Book, and in some modern businesses it is not uncommon to employ twenty or more analysis columns. Again, where the volume of business is such as to necessitate the subdivision of the books in order to facilitate their expeditious posting, the Purchases and Sales Books are often multiplied in number, and divided alphabetically or geographically into sections, to meet the needs of the business and the staff. Where more than one Purchases Book is employed there may be either one Purchases Account in the Ledger to which the totals of these books are all posted, or, in an extreme case, more than one Purchases Account may be kept.

Specimen forms of a Columnar Purchases Book and the analyzed account kept in the Ledger under the title of the "Purchases" Account are given on the previous page. The entries appearing in the Columnar Purchases Book are posted in the Columnar Purchases Account in the Ledger upon the assumption that no further transactions took place during the month of December.

EXERCISES.

5A.

Write up the following transactions in King & Co.'s Purchases Book, ruling the necessary form, and indicate what should be done as regards the posting of the various items and of the total in the Ledger.

Note.—All purchases stated below are "on credit."

1909.

April 1. Bought from the Western Distributing Company 1,000 tons large steam coal at 17*s*. 6*d*. per ton.

,, 13. Bought from Harris Bros. 2,000 tons large steam coal at 17*s*. 9*d*. per ton, less 5 per cent. trade discount.

,, 14. Bought from the Brown Colliery Company 850 tons large coal at 17*s*. per ton, less 5 per cent. trade discount, and 350 tons small coal at 9*s*. 3*d*. per ton, less 7½ per cent. trade discount.

,, 26. Bought from the Aberwryn Deeps Coal Syndicate 2,000 tons large coal at 18*s*. per ton, less 2½ per cent. trade discount, and 1,000 tons small coal at 7*s*. 10*d*. per ton.

5B.

Rule a form of Purchases Book containing Analysis Columns for Clocks, Watches, and Jewellery departments, and enter therein the following transactions—

1909.

May 2. Purchased from Verner & Cie.—

3 clocks, nos. A621–623, at £4 16*s.* each.
10 watches, nos. B32416–25, at £3 15*s.* each.
} Less 10 per cent. trade discount.

,, 13. Purchased from Harris & Co.—

25 pendants, assorted types, nos. C1840–64, at a price of £38 4*s.* 9*d.* for the lot, less 2½ per cent. trade discount.

,, 18. Bought from Breguet Frères—

12 watches, nos. B32426–37, at £8 4*s.* 6*d.* each net.
4 clocks, nos. A624–7, at £16 each, less 5 per cent. trade discount.

,, 26. Bought from the New York Clock Company—

50 alarm clocks, nos. D14167–216, at 3*s.* 6d. each, less 15 per cent. trade discount.
25 clocks, nos. V324–48, at 12*s.* 6*d.* each, net.

5C.

Rule an Analysis Purchases Book containing Analysis Columns for the following departments, viz. (1) Furniture, (2) Carpets, (3) Cutlery, (4) China and Glass, (5) Jewellery, and enter therein the following transactions—

1909.

April 1. Bought from Welton & Co., subject to trade discount of 10 per cent.—

20 doz. table-knives, J1, at 25*s.* 6*d.* per dozen.
30 doz. dessert-knives, J34, at 59*s.* per dozen.
15 gold bracelets, J716, at 26*s.* 9*d.* each.

,, 1. Bought from the Household Furniture Manufacturing Company, subject to trade discount of 2½ per cent.—

3 writing tables, W929 (4 ft.), at £3 0*s.* 6*d.* each.
3 fumed oak bookcases, W1042 (3 ft. 6 in.), at £4 18*s.* 9*d.* each.
Walnut dining-room suite, X1092 (tapestry), at £9 15*s.* 6*d.*

,, 2. Bought from the Midland China Corporation, Ltd.,
30 toilet services, G1342/3, at £1 5*s.* 6*d.* each.

,, 2. Bought from Hansen & Co., subject to 5 per cent. trade discount—

100 art squares Axminster carpets, assorted patterns, 9 ft. × 9 ft., at £3 0*s.* 6*d.* each.
10 Brussels carpet squares, 9 ft. × 12 ft., at £2 10*s.* 3*d.* each.

,, 3. Bought from Hervin & Co., subject to 15 per cent. trade discount—

30 18-ct. pearl and turquoise flower brooch-pins at 20*s.* each.
25 15-ct. gold curb bracelets, turquoise collet, at £2 each.

April 4. Bought from the Universal Furnishing Company—
50 kitchen chairs at 2*s*. 6*d*. each.
30 bedroom chairs at 2*s*. 9*d*. each.

5D.

1. Explain why a Purchases Book is made use of in practical book-keeping.
2. Give an elementary form of Purchases Book, and explain the method of its use.
3. What is meant by an "Analysis" Purchases Book? What are its special uses and advantages?
4. Rule a form of an "Analysis" Purchases Book suitable for an undertaking consisting of the following departments—viz. (1) Groceries, (2) Provisions, (3) Wines and Spirits, and (4) Household requisites, and pass five specimen entries through this book.

Answers.—5A. Total purchases, £5,544 0*s*. 6*d*.
5B. Total purchases, £266 11*s*. 1*d*.
5C. Total purchases, £581 6*s*. 10*d*.

CHAPTER VI

THE SALES BOOK (OR DAY BOOK)

The principles which, in modern practice, underlie the recording of a trader's *Sales*, are almost identical with those described in the preceding chapter as regulating the record of a trader's *Purchases*, subject to the difference that the sides upon which Sales are entered in the Ledger (whether in the Personal or Impersonal Accounts) are, of course, the reverse of those upon which the Purchases appear.

Inasmuch as the sales effected by a trader frequently form a large proportion of his transactions, and also as sales upon credit are usually largely in excess of sales

SALES BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£	s.	d.	£	s.	d.
1908.								
Dec. 1	*Warmington & Co.—*							
	Suite of Furniture..................		27	10	0			
	4 Chairs at £1 each..................		4	0	0			
	4 Mirrors at £5 each.........		20	0	0			
			51	10	0			
	Less 5 per cent. Trade Discount		2	11	6			
		132				48	18	6
,, 2	*Brown Bros.—*							
	Mahogany sideboard		64	10	0			
	Less 10 per cent. Trade Discount		6	9	0			
		146				58	1	0
	Carried forward to the next page of the Sales Book *					£106	19	6

* This total, upon its completion at the end of the period, is posted to the credit of the "Sales Account" in the Ledger.

effected for cash, a special book of original entry, called the "**Sales Book,**" "**Sales Day Book,**" or "**Sales Journal,**" is employed for the record of all sales upon credit as they take place, and to facilitate the gradual compilation of

one or more totals of credit sales for subsequent posting to the credit of the Sales Account in the Ledger.

The lines upon which the Sales Book is constructed,

48 **SALES BOOK (Analyzed Form)** **48**

Date.	Sold to.	Details.	Ledger Folio.	Dept. A (China). £	s.	d.	Dept. B (Glass). £	s.	d.	Dept. C (Cutlery). £	s.	d.	Total. £	s.	d.
1908. Dec. 1	Wilson & Co. ...	1 Tea-service......... 1 Set table glass......... 10 dozen Knives.........	72	10	0	0	11	5	0	12	4	0	33	9	0
„ 3	Harris Bros....	Assortment of china and glass goods as per Sales Carbon Memo Books	94	84	0	0	25	0	0				109	0	0
„ 6	Brown, Jones & Co..........	20 dozen Knives.........	41							21	6	0	21	6	0
	Carried forward to the next page of the Sales Book			£94	0	0	£36	5	0	£33	10	0	£163	15	0

The entries as set out in the above specimen Sales Book when posted into the trader's Ledger, assuming they completed the sales for the month of December, would appear as follows—

THE TRADER'S LEDGER (*Credit side only*).

SALES ACCOUNT

Cr.

Date.		Folio.	China. £	s.	d.	Glass. £	s.	d.	Cutlery. £	s.	d.	Total. £	s.	d.
1908. Dec. 31	By Sales for the Month.........................	S.J. 48	94	0	0	36	5	0	33	10	0	163	15	0

and the methods of its employment, are similar to those already described as applicable to the Purchases Book; a simple form is sufficient for the needs of, and is found

in general use in, small undertakings; more elaborate "analyzed" forms of Sales Books are, however, necessary in large businesses, where the separation of the transactions into classes or departments is essential.

Sales upon credit are entered as they occur direct into the Sales Book (whether the simple or the elaborate type be used), and from thence they are posted to the debit of the Personal Accounts kept by the trader in order to record his transactions with the persons to whom he sells his merchandise.

The total of the Sales Book is carried forward from page to page, and the final total, for any given period, is posted to the credit of a "Sales Account" in the Ledger. As will be seen later on, the grand total of the entries appearing in the Sales Account are subsequently transferred to the credit of the "Trading Account," and the Sales Account thus becomes merely a temporary resting-place for the items recorded in it.

Specimen forms of Sales Books (Elementary and Analyzed types) are given above, as is also an example of a Columnar "Sales Account" in the trader's Ledger.

EXERCISES.

6A.

1. Rule a form of Sales Book suitable for a small business, and insert therein five specimen entries.
2. Indicate briefly the lines upon which the foregoing Sales Book is worked, and in what respect it may be described as saving labour.
3. What are the consequences, in a book-keeping sense, of an incorrect addition being made in the extreme right-hand column of a Sales Book?

6B.

1. Rule a form of "analyzed" Sales Book suitable for a business consisting of the following four departments, viz. Furs, Woollen Goods, Silks and Cotton Goods, and pass through it eight transactions (two for each department), four of which are to be for "net cash," while the other four are to be subject to a trade discount of 5 per cent.
2. Indicate in what respects an analyzed "Sales" Book resembles, and differs from, an analyzed "Purchases" Book.
3. Give a form of "Sales" Ledger Account suitable to the analyzed Sales Book ruled by you in answer to Question 1 of this exercise, and state what is eventually done with the items posted to this account.

6c.

Prepare a suitable ruling for a Tabular Sales Book to record the undermentioned items, and enter them therein—

1909.		£	s.	d.
March 3.	Sold to Charles Birget & Co. 3 Chests of Tea	16	10	0
,, 4.	Sold to Robert Kilrough 6 Cases of Sugar, and allowed him 10 per cent. trade discount	18	0	0
,, 5.	Sold to James Birchets 10 Bags of Coffee	40	18	6
,, 7.	Sold to John Warner 4 Chests of Tea, and allowed him 12½ per cent. trade discount	19	17	6
,, 12.	Sold to George Coe 3 Cases of Sugar .	9	10	0
,, 14.	Sold to Frank Ball 4 Bags of Coffee, and allowed him 10 per cent. trade discount	18	6	4

6d.

Rule an analyzed form of Sales Book containing columns for the following departments, viz. (1) Gloves, (2) Hats, (3) Costumes, and (4) Boots and Shoes, and enter therein the following transactions—

1909.

April 1. Sold to Brown & Co. 50 pairs 12-button length Chamois Gloves, at 2*s.* per pair net, and 5 dozen pairs 2-strap Glacé Kid Ladies' Shoes at 8*s.* 9*d.* per pair, subject to 5 per cent. trade discount.

,, 1. Sold to Wilson Bros. 10 Hats, Paris models, at £10 16*s.* the lot, and 4 Ladies' Costumes, Ready-made, at £2 15*s.* each.

,, 2. Sold to Merriman & Honeydew 2 dozen Ladies' Blouses, Silk, Assorted Colours, at 7*s.* 6*d.* each (Costume Department), and 3 dozen pairs Ladies' 3-button French Kid Gloves, Imperial Points, at 25*s.* per dozen pairs, both the foregoing sales being subject to 10 per cent. trade discount.

,, 3. Sold to Weston & Co. 1 pair Ladies' Deerskin Gauntlet Gloves, made to order, 6*s.* 6*d.*

,, 4. Sold to Myrtle, Rose & Co. 24 Fancy Frilled Pyrenees Wool Capes, Assorted Colours, at 15*s.* 9*d.* each, subject to 5 per cent. trade discount.

,, 4. Sold to Merriman & Honeydew 2 dozen pairs Ladies' Glacé Kid Walking Shoes, Patent Cap and Facings, at 10*s.* 3*d.* per pair, subject to 2½ per cent. trade discount.

,, 5. Sold to Verner & Co., subject to 3 per cent. trade discount, 15 Paris Model Hats, at £1 2*s.* each; 4 Costumes, Ready-made, at £2 2*s.* 6*d.* each.

,, 6. Sold to Myrtle, Rose & Co. 25 Ostrich Tips, assorted colours, at 3*s.* 9*d.* each, subject to 5 per cent. trade discount.

,, 6. Sold to Warren, Charles & Co. 10 pairs Ladies' Boots, "Rose" pattern, at 15*s.* 6*d.* per pair, subject to 2½ per cent. trade discount.

Answers.—6c. Total Sales, £123 2*s.* 4*d.*
6d. Total Sales, £129 14*s.* 10*d.*

CHAPTER VII

THE JOURNAL

It has already been explained that the Ledger forms the complete and permanent record of a trader's transactions, and, regarding the Cash Book as an integral part of it, it is the Ledger which affords the necessary material for the construction, successively, of the Trial Balance and the Balance Sheet.

It has also been mentioned that, for purposes of convenient grouping of sales and purchases "on credit," and in order to facilitate their subsequent entry in the Ledger, transactions of these two types are marshalled in subsidiary books (called "Sales" and "Purchases" Journals) prior to their final record in the Ledger.

It still remains to be explained that those transactions which do not pass through the Cash Book, Sales Journal, or Purchases Journal, are similarly marshalled in one or more subsidiary books, called "Journals," prior to their respective entry in the Ledger. The Sales and Purchases Books are themselves "Journals," in the sense that they marshal entries for subsequent posting, and, except for the fact that they occupy a somewhat special position in a trader's system of book-keeping, these books could have been suitably explained in this chapter in company with the other Journals; owing, however, to the extended use to which books of this kind are put in modern practice, it has been considered advisable to explain them in detail in the two previous chapters.

The Cash Book and the Journals (of whatever class) form the "books of original entry" in common use, and it is an accepted rule in present-day book-keeping that no transaction shall be entered in the Ledger without having previously appeared in some "book of original entry." This salient rule arises out of the necessities of office organization.

The various books of original entry can be written up by one or more clerks immediately upon the occurrence of a transaction, and these books can be subsequently

handed to the Ledger-keeper to be posted by him in the trader's Ledger at his leisure or convenience. Incidentally, in the auditing of a trader's books, the fact that the record of each transaction appears in a book of original entry as well as in the Ledger permits of two auditors being simultaneously employed to check the accuracy of the trader's postings, one auditor being able to "call over the transactions" from the book of original entry to another auditor holding the Ledger. It will be obvious that this convenience saves an immense amount of time, especially when the books are ponderous in size.

Apart from the Sales and Purchases Books already dealt with, the Journals employed by a trader for the purpose of marshalling his transactions are as under—

1. "**Returns**" **Journals**, which are used to record transactions in which goods purchased are returned to or by the trader on account of some defect, error, or unsuitability.
2. **Bills Receivable and Bills Payable Journals** (or "Books") which are employed to marshal transactions respecting the Bills Receivable given to the trader or the Bills Payable accepted by him.
3. **Other Special Journals**, devised and used to record transactions of one or more special types according to the particular requirements of the business in which they are employed.
4. **The Journal proper**, which is used to record, as a book of original entry, those transactions (other than cash transactions) which cannot conveniently be placed in any of the Journals previously mentioned.

The student will find that the Returns Journals and the Bills Payable and Receivable Books are explained in the next chapter; the "Special" Journals, referred to above (3), naturally vary according to the character and requirements of the business in which they are employed or according to the nature of the transactions they are designed to record, and need no detailed mention here. It is therefore

The Journal Proper

which remains for explanation in this place.

The generally accepted use of the "Journal proper," in modern commercial book-keeping, is, as has already been stated, merely that of a book of original entry for

the record of transactions which cannot be conveniently marshalled for subsequent posting in any other book of original entry. Its form, however, is such that *any* transaction, whether "Cash," "Sale," "Purchase," "Return," or indeed whatever its nature, could, if desired, be originally recorded in this book, although the labour and inconvenience of such a proceeding in a business of any magnitude would obviously be enormous.

In earlier times, however, the Journal was used as the main book of original entry, and the Cash Book and such other books of original entry as were employed were regarded as accessory to it, entries in many cases appearing first in the one set of original records and subsequently in the Journal.

Judging by the work sent in by examination candidates there would still appear to be great diversity of opinion amongst teachers of book-keeping as to the practical uses of the Journal proper. Some candidates even go to the extreme length of journalizing every item appearing in an exercise before preparing the accounts required by the terms of the question. The inevitable result of this proceeding is that examinees pursuing these methods rarely have time to attempt more than a small portion of the paper set.

In the opinion of the author, teachers will be wise to encourage students, particularly in elementary stages, to acquire facility in quickly and correctly journalizing any transactions that may be put before them. Ample practice in this direction will render many matters, which often present difficulties to the student's mind, much easier of comprehension, and will, moreover, enable him to acquire the habit of deciding, with method and rapidity, upon the proper destination of the items composing any transactions he may encounter. Probably nothing will exemplify more forcibly the principle that every debit must have its correlative credit than the cultivation of this practice. Let the student therefore acquire the habit of *thinking in Journal entries* when confronted by book-keeping problems.

If a reference is made to Chapter XXII it will also be noted that, in the author's opinion, students will be wise, for the reasons there stated, to journalize the adjusting entries arising out of any exercise or set of accounts prepared by them for examination purposes.

Subject to the legitimate and helpful employment of

the Journal in the above directions, the student should be given clearly to understand that the uses to which the Journal proper is put, in modern practice, are *strictly limited*, as will be explained hereafter.

On the continent the Journal proper is still extensively employed, and, in France, under the Code Napoléon, its use is compulsory, and it is designed so as to contain the whole of a trader's transactions; but in modern commercial practice in the United Kingdom the employment of the Journal proper has almost reached vanishing point. It is now over twenty years since the author last saw the old practice of journalizing every transaction employed in this country, and its continuance in that case was solely due to the obstinacy of the book-keeper concerned, who eventually died as the result of the breakdown occasioned by the overwork entailed by his cumbersome and antiquated methods.

Many important business houses employ no Journal proper at all, making all the necessary adjustments by means of direct transfers from one Ledger account to another.

In the opinion of the author, it is advantageous to keep a Journal for the reason, if for no other, that it is often convenient to have a permanent record in concise form and chronological order of the annual adjustments, provisions, etc., made upon closing the books of a business for any given period.

It is often useful, also, for future reference in case of doubt or dispute, for such entries to be signed or initialed by the partners or by the company's officials concerned. The entries passed through the Journal proper should, however, be strictly limited to the necessary record of opening entries, closing entries, adjustments, corrections, etc., or to such entries as cannot be scientifically passed through any other book of original entry. For the accommodation of entries such as the above, the Journal proper offers the only convenient posting medium.

The common form of the Journal proper is simple. It contains columns for the date of the transaction, for the details of which it is composed (including the names of the Ledger accounts in which the entry is to be debited and credited), a folio column, and a pair of money columns (Dr. and Cr.). The purpose of Journal entries is merely the lucid statement of transactions in correct form for posting in the Ledger, a process which is called "**Journalizing**"

This intention (the correct statement of transactions in proper form for posting) could, of course, be accomplished by any form of book which permitted a succinct and concise synopsis of the entry to be made, and some such form as the one appended could be used.

E.g. It is desired to state, in convenient form for posting, the parting with a horse worth £100 in exchange for a carriage worth a similar sum.

Example.—

	£	s.	d.
Debit *Carriages Account*	100	0	0
Credit *Horses Account*...	100	0	0
In respect of the carriage received from John Smith in exchange for my horse "Toby." *			

* The transaction here used for the purposes of exemplification, *i. e.* the direct exchange of one commodity against another, is not to be taken as illustrative of modern commercial methods. Direct barter of one article against another is rare in practical business; transactions which are tantamount to barter in their effect being usually stated in the form of sales and purchases between the respective parties. The entries then find their due places in the customary Sales and Purchases Books.

It will be seen, however, that there is one defect in the above form, viz. that, apart from the instructions as to debiting and crediting at the extreme left-hand side of the entries, there is nothing in the relative positions of the money sums (£100 in each case) to indicate upon which side of the respective Ledger accounts the entries are to be made. It must be remembered that, in glancing through transactions prior to posting them in the Ledger, the position of the money sums (either on the debit or the credit sides) in the Cash Book and Sales and Purchases Journals indicates, to a greater or less degree, the side of the Ledger account upon which the item is to be entered, and it is desirable that some such indication should also be afforded to the Ledger-keeper when posting from the Journal proper.

The form of the modern Journal has therefore been modified in order to include this very desirable end. Two money columns are provided in the place of the single column given above, and all entries which are to be posted to the debit in the Ledger are entered in the left-hand money column in the Journal, while all entries which are to appear in the Ledger on the credit side are placed in the right-hand money column in the Journal. At the same time and with the same object

(viz. clearness in posting) the following rules are followed when compiling Journal entries, viz.—

(1) That the account (or accounts, if there be more than one) which is to be debited in the Ledger appears in each Journal entry *before* the account (or accounts) which is to be credited.

(2) That the Accounts which are to be debited are shown in the Journal entry slightly more to the left-hand side than those Accounts which are to be debited.

A transaction stated in proper Journal form, ready for posting, appears, therefore, much in the following form (taking the same example as previously used)—

	£	s.	d.	£	s.	d.
Carriages Account	100	0	0			
Horses Account				100	0	0
For property exchanged this day.						

A transaction stated in this manner corresponds almost exactly to the form of Journal entry used in modern practice.

The form employed in commercial practice differs from the above example only in the fact that it contains additional columns for dates and Ledger folios, and a slight verbal alteration in the method of stating the entry also takes place; viz. the word "to" is prefixed to all items which are to be posted to the credit of accounts in the Ledger.

A form of Journal is appended in which the above transaction is set forth in proper commercial form.

JOURNAL

			£	s.	d.	£	s.	d.
1908.								
Jan. 5	Carriages Account Dr.		100	0	0			
	To Horses Account					100	0	0
	For property exchanged this day.							

The transaction shown, by way of an example, in the specimen form of Journal given above is of a simple nature, there being only one account to be debited with a certain sum of money and another account to be credited with a like amount.

Transactions, however, frequently occur which are more complicated, wherein, for example, a single debit

entry for a certain sum is to be equalized by two or more credit entries for different portions of this sum (the total credit entries equalling in amount the debit entry), or *vice versa*, *e.g.* the trader may exchange a horse worth £50, receiving for it a cart worth £30 and hay worth £20. In order to record this transaction properly the trader must credit his "Horses" Account with £50 and must debit "Cart" Account with £30 and "Fodder" Account with £20. The Journal entry will therefore appear as follows—

JOURNAL

			£	s.	d.	£	s.	d.
1909.								
Feb. 5	Sundries, viz.—							
	Cart Account Dr.		30	0	0			
	Fodder Account Dr.		20	0	0			
	To Horses Account................					50	0	0
	For property exchanged this day.							

Other compound entries must be treated, according to their requirements, in a similar manner; the word "Sundries" being prefixed to the accounts which are to be debited or credited if there is more than one account on either side.

A further illustration may be given, in which more than one entry is required on each side of the Journal, *e.g.* when the trader parts with a horse worth £50 and £10 worth of harness, receiving in exchange a cart worth £30 and fodder to the value of £30. The entry for this transaction will be as follows—

JOURNAL

			£	s.	d.	£	s.	d.
1909.								
Feb. 5	Sundries Dr.							
	To Sundries, viz.—							
	Cart Account		30	0	0			
	Fodder Account		30	0	0			
	Horses Account					50	0	0
	Harness Account................					10	0	0
	For property exchanged this day.							

The remark placed at the foot of a Journal entry (*e.g.* "for property exchanged" as above) is intended to furnish a concise explanation of the nature of the transaction, and is termed the "**Narration.**" The narration, of course, varies according to the nature of the entry to which it relates, and should not be allowed to become too voluminous.

The transactions which appear in the Journal are,

as has been indicated previously, those which from their nature cannot be conveniently marshalled in correct form ready for posting to the Ledger in any of the other books of original entry; they are, in practice, consequently mainly confined to "transfers" of amounts between any two cr more Ledger accounts, together with the opening and closing entries made at the commencement and termination respectively of any particular trading period.

Entries which are merely of the nature of transfers, whether made during a trading period or at the close of it, are usually of a comparatively simple nature, and follow upon the lines previously laid down, but the records which are necessary at the initiation of a system of book-keeping, and at the conclusion of a trading period, are perhaps of a somewhat special nature, and may be advantageously explained in detail.

If a person possessing certain assets, and being subject to certain liabilities (the difference between these two sets of figures representing, of course, his "capital") engages in business, the details of these Assets and Liabilities require to be marshalled in the Journal before the necessary accounts for the respective items are opened in the Ledger. The various assets are set forth in the Journal in the debit column, and the liabilities and the capital are similarly entered in the credit column; the totals of the items on either side counterbalance each other, and the whole forms one comprehensive and self-explanatory Journal entry. It must here be mentioned that, contrary to the general rule which prohibits cash entries from appearing in the Journal (their appropriate book of original entry being, of course, the Cash Book), the balance of cash in hand with which a trader commences business is entered with the other assets on the debit side of the Journal, and is posted from thence to the Cash Book. This procedure arises out of a desire to include the whole of the trader's initial financial position in the one comprehensive Journal entry, including the full figure of the trader's original capital, so that a complete history of the initiation of the business may be placed upon record.

This principle is carried out in the subjoined example.

Example.—A. B. starts in business on January 1, 1909, with the following assets—

Cash at the Bank, £100; Stock of Goods on hand, £250; Bills Receivable, £100.

Debtors—W. Brown, £365; Holmes & Co., £45. (Total, £860.)
At the same date A. B. owes the following liabilities—
Gremaud & Co., £45; Beck Bros., £250. (Total, £295.)
The Journal entry necessary in order to open A. B.'s books will be as follows—

JOURNAL

1909.		£	s.	d.	£	s.	d.
Jan. 1	Sundries Dr.						
	To Sundries						
	Cash	100	0	0			
	Stock	250	0	0			
	Bills Receivable	100	0	0			
	W. Brown	365	0	0			
	Holmes & Co.	45	0	0			
	Gremaud & Co.				45	0	0
	Beck Bros.				250	0	0
	Capital Account...........				565	0	0
	For Assets, Liabilities, and Capital at the commencement of business.						
		£860	0	0	£860	0	0

At the conclusion of any given period of trading (*e. g.* at the end of a half-year) the trader usually extracts his "Trial Balance" (*i. e.* a classified list of the balances remaining on his Ledger), and prepares to construct therefrom his Trading and Profit and Loss Accounts.

As has been previously indicated (see page 57) the Trading and Profit and Loss Accounts are constructed by transferring to new accounts, opened for the special purpose under the above headings, the balances of all those accounts which represent (for the Trading Account) transactions in goods and (for the Profit and Loss Account) items of "loss" or "gain." The loss or gain shown on the Trading Account is itself transferred, immediately upon its ascertainment, to the Profit and Loss Account.

Transfers of this nature are effected by means of the Journal, as also are the transfers which are necessary in order to carry into effect any desired writing down or "depreciation" of any particular asset, the entries necessary to raise any desired reserves, and the final transfer of the net balance of Profit or Loss (in the case only of private firms and partnerships and not in the case of Joint Stock Companies) to the Capital Account. All these matters will, however, be fully dealt with hereafter, when the preparation of the above accounts is under consideration.

Example.—The following balances, extracted from a trader's Trial Balance, are to be transferred to the Trading and Profit and Loss

Accounts through the Journal, and the closing balance of the Profit and Loss Account is to be transferred to the Capital Account.

Opening Stock (Dr.), £500; Purchases (Dr.), £5,000; Sales (Cr.), £6,000.
The Closing Stock, £400 (Dr.), is to be brought into the books.
Salaries (Dr.), £500; General Expenses (Dr.), £360; Discounts received (Cr.), £50.

JOURNAL (Closing Entries)

1908.		L. F.	£	s.	d.	£	s.	d.
Dec. 31	Trading Account Dr.	131	5,500	0	0			
	To Sundries							
	viz. Stock Account ... (Stock, Jan. 1, 1908)	32				500	0	0
	Purchases Account ...	36				5,000	0	0
	For Balances Transferred.							
" 31	Sundries Dr.							
	To Trading Account	131				6,400	0	0
	viz. Stock Account (Stock, Dec. 31, 1908)	32	400	0	0			
	Sales Account	37	6,000	0	0			
	For Balances Transferred.							
" 31	Trading Account Dr.	131	900	0	0			
	To Profit and Loss Account	132				900	0	0
	For Gross Profit Transferred.							
" 31	Profit and Loss Account Dr.	132	860	0	0			
	To Sundries							
	viz. Salaries Account	84				500	0	0
	General Expenses Account..............	86				860	0	0
	For Balances Transferred.							
" 31	Discount Account Dr.	74	50	0	0			
	To Profit and Loss Account	132				50	0	0
	For Balance Transferred.							
" 31	Profit and Loss Account Dr.	132	90	0	0			
	To Capital Account	1				90	0	0
	For the Net Profit for the year 1908 transferred to Capital Account.							
			£13,800	0	0	£13,800	0	0

As has already been suggested, in the earlier part of this chapter, in many modern commercial houses, the closing entries comprised in the above entry would be made by means of direct transfers from one Ledger account to another. The only valid objection to this course is the fact that errors are perhaps more likely to creep in where this practice is maintained than in cases where the whole of the transactions are marshalled clearly before the book-keeper in the form of Journal entries.

EXERCISES.

7A.

1. What is a Journal? Explain the expression "Sales Journal."
2. What are the books of "original entry," and why are they so called?
3. What is the object and utility of the rule that "every transaction shall pass through some book of original entry"?
4. Apart from the Sales and Purchases Books give a list of the Journals usually employed by a trader.
5. What is the "Journal proper"? Explain the nature of the transactions which it should contain.
6. Briefly compare the present-day use of the "Journal proper" with the uses to which it was put in the early stages of Double Entry book-keeping.
7. If the debit and credit money columns of a Journal proper disagree as regards their total, what would you infer?
8. Give briefly the reasons which render the journalizing of the whole of a trader's transactions quite unnecessary in modern practice.

7B.

Construct, from the following details, the Journal entries necessary to open the books of Arthur Day on January 1, 1909, ruling the necessary form. Show Arthur Day's initial "Capital Account."

	£	s.	d.
Cash at Bank	362	1	9
Stock on hand	1,471	14	2
Creditors: Eager & Co.	32	1	0
Finch Bros.	176	15	4
Bills Receivable on hand	350	0	0
Plant and Machinery	549	13	2
Freehold Premises	2,004	6	11
Amount owing to W. Brown for Loans	1,500	0	0
Debtors: W. Good	362	13	9
R. Hall	40	0	0
Cash at Office	5	2	9

7C.

Journalize the following transactions, ruling the necessary forms—

April 3. Exchanged two horses worth £35 each for one carriage worth £70.

,, 5. Exchanged fodder to the value of £60 for one horse worth £25 and seven sheep worth £35.

,, 8. Transferred from the Personal Ledger Account of A. Brown (to which account it had been incorrectly credited) a sum of £35 remitted by Brown & Co. for their credit on February 14 last; and credited the same to Brown & Co.

,, 30. Wrote £30 depreciation off "Horses" Account and £25 off "Buildings" Account.

,, 30. Wrote off as a Bad Debt £14 6*s.* 9*d.* owing by Wetherall Bros.

April 30. Created a Reserve of £100 as a provision against Bad and Doubtful Debts, this sum being estimated to be needed in future in respect of debts owing at this date.

" 30. Wrote £100 off Goodwill and Patent Rights Account.

7D.

The following balances, extracted from a trader's Trial Balance, are to be transferred to the Trading and Profit and Loss Accounts through the Journal; a reserve of £200 is to be raised to cover the estimated loss in connection with pending litigation, and the closing balance of Profit and Loss is to be transferred to the Capital Account. The closing Stock amounted to £1,200.

	£	*s.*	*d.*
Opening Stock	2,600	0	0
Purchases	10,400	0	0
Returns Inwards	100	0	0
Sales	13,460	0	0
Salaries and Wages	1,050	0	0
General Expenses	150	0	0
Rent, Rates and Taxes	300	0	0

Answers.—

7B. Balance of A. Day's Capital Account (Cr.), £3,436 16*s.* 2*d.*

7C. Totals of Journal, £434 6*s.* 9*d.*

7D. Net Loss, £140.

CHAPTER VIII

BILLS PAYABLE AND RECEIVABLE BOOKS. RETURNS BOOKS

It is a matter of experience in many trading concerns that the transactions in Bills of Exchange (whether "Bills Payable" or "Bills Receivable" from the trader's point of view) are sufficiently numerous to justify, or even to necessitate, the keeping of separate books of original entry in order to conveniently marshal them for subsequent Ledger posting. It is also a matter of experience that the main features of a Bill of Exchange, *e.g.* the dates of acceptance and maturity, the names of the drawer, acceptor, etc., are too numerous, in the majority of cases, for complete record in the limited space available for Ledger postings, and for this reason also the use of a separate record is desirable. As a result of these essential considerations separate Journals are, in practice, almost invariably used for the purpose of recording all transactions in bills, and the Journals so employed are commonly designed to contain much information of a statistical character in addition to fulfilling their purpose as books of original entry.

Separate books are used for (*a*) the Bills Payable "accepted" by the trader, and for (*b*) the Bills Receivable acquired by him.

When a trader "accepts" (*i.e.* undertakes to pay at maturity) a bill drawn upon him by one of his creditors, the necessary double entry consists of a debit to the creditor's Personal Account for the amount of the bill, and a credit to Bills Payable Account for a like sum. It must be borne in mind that the "acceptance" of a creditor's draft is always treated as cancelling the original debt to the extent of the amount of the draft, and as creating a fresh obligation to the holder of the bill (not necessarily the creditor), this obligation being recorded under the account styled "Bills Payable." When it is remembered that the Bills Payable, accepted by the trader in question, pass from hand to hand in commercial circles

without any notification to the acceptor of the various changes in ownership, the necessity for the Bills Payable Account at once becomes apparent, in view of the fact that it represents, at any time, the amount owing by the trader to the world at large on his Bills Payable.

When "accepting" a draft drawn upon him by a creditor the trader could, should he so desire, effect the necessary entry by debiting the creditor and crediting Bills Payable Account, by means of an entry in the Journal proper, and he could of course repeat this process in order to record every one of his acceptances as they occurred; as a result the credit entries of exactly similar character appearing in the Bills Payable Account would become so numerous that, in many businesses, the account would soon become unwieldy if dealt with in this manner.

If, on the other hand, these numerous separate credits to the Bills Payable Account can be replaced by one credit entry for the total acceptances accumulated during a given period, say monthly, it is obvious that economy and convenience in Ledger posting has been gained, and this desirable result is effected by means of the **Bills Payable Book.**

Consequently, in practice, all the drafts accepted by the trader are entered, upon acceptance, in the Bills Payable Book, from whence the Personal Ledger Account of the creditor is immediately debited; at the end of a given period the Bills Payable Book is added up and its *total* is posted to the credit of the "Bills Payable Account" in the Ledger, thus completing the double entry.

The form of a Bills Payable Book in common use appears on the opposite page, and three specimen transactions have been inserted therein.

When a trader's acceptances mature they are presented for payment either at his office or, more usually, at his Bankers', according to the wording of his "acceptance" as written across the face of the bill. In either case, upon the payment of the sum represented by the bill, a credit entry must be made in the Cash Book (in the "Cash" or "Bank" column as the case may be), and this entry must be posted to the debit of the Bills Payable Account in the Ledger in the ordinary course. It may sometimes happen that the debit appearing in the Bills Payable Account, representing the payment of the bill, will reach the Bills Payable Account (on the debit side) before the total entry for the bills accepted over a given

BILLS PAYABLE BOOK

Date.	Number of Bill.	Drawer.	In whose favour drawn.	For whose account accepted.	Where payable.	Dates of Bills.	Tenor.	Due date.	Folio of Ledger account debited.	£ s. d.	Remarks.
1908.											
Jan. 1	101	Brown & Co.	Brown & Co.	Brown & Co.	London	Jan. 1, 1908	1 month from date	Feb. 4, 1908	36	200 0 0	
,, 1	102	Jones Bros.	R. Hill	Jones Bros.	do.	Jan. 1, 1908	3 months from date	April 4, 1908	42	1,000 0 0	
,, 1	103	J. H. Beck	Kamenz & Co.	R. Wilson (Melbourne)	do.	Dec. 30, 1907	3 months after sight	April 4, 1908	64	785 16 2	
									£	1,985 16 2	

NOTE.—If there were no further Bills Payable transactions during the trading period (*e. g.* the 3 or 6 months), the double entry would be completed by crediting £1,985 16*s.* 2*d.* to the Bills Payable Account in the Ledger.

BILLS RECEIVABLE BOOK

Date.	Number.	Acceptor.	Drawer.	From whom received.	Where payable.	Date of Bill.	Tenor.	Due date.	Folio of Ledger account credited.	£ s. d.	Remarks.
1908.											
Jan. 1	81	Horsman & Co.	J. R. Wills	Brown Bros.	Parr's Bank, Lombard Street	Dec. 30, 1907	3 m/d	April 2, 1908	32	614 0 0	Paid at maturity
,, 1	82	Wilson Bros.	Selves	Wilson Bros.	Yorkshire Bank, York	Dec. 31, 1907	2 m/d	Mar 3, 1908	64	50 0 0	Do.
,, 1	83	Brown & Co.	J. Atkins & Co.	J. Atkins & Co.	Bank of England, Hull	Dec. 24, 1907	3 m/s	Mar 29, 1908	14	500 0 0	Discounted with Bank Feb 5, 1908
									£	1,164 0 0	

NOTE.—If there were no further Bills Receivable transactions during the trading period (*e. g.* the 3 or 6 months), the double entry would be completed by debiting £1,164 to the Bills Receivable Account in the Ledger.

period is effected upon the credit side, although the former transaction takes place long after the latter; this apparent difficulty is made right when the total credit entry for acceptances is made in due course from the Bills Payable Book, and must not be allowed to confuse the student.

The **Bills Receivable Book** proceeds upon lines similar to those already explained as underlying the working of the Bills Payable Book, subject, of course, to the fact that the nature of the transactions it contains is reversed.

Bills Receivable as and when acquired by the trader are entered in detail in the Bills Receivable Book, and are posted from thence to the credit of the Ledger account kept for the person from whom they have been received; at the end of a given period the total of the Bills Receivable Book is posted to the debit of the Bills Receivable Account in the Ledger in order to complete the double entry.

When any Bill Receivable held by a trader is paid by him at maturity into his Bank for collection on his behalf, a debit entry in the Cash Book and a corresponding credit entry in the "Bills Receivable" Ledger account are made. If, by any mischance, the Bill should be returned "dishonoured," *i. e.* unpaid, it will be necessary to credit the Cash Book (in order to reverse the preceding debit to this account) and to debit the Ledger account of the person who has failed to honour his obligation. It then remains for the trader to consider what steps he will take with regard to his defaulting debtor. The small charges paid by the trader's Bankers for formally "noting," on his behalf, the dishonour of the acceptance are also debited to the Personal Account of the defaulter. It sometimes happens that a debtor, having previously dishonoured acceptances in the trader's hands, and having, consequently, been debited in the trader's Ledger with the amounts they represented, will offer some sort of composition, *e. g.* the immediate payment of half the amount of the bill in cash, accompanied by the debtor's fresh acceptance for the remainder of the amount. These transactions, if carried out, are recorded in the trader's books without any special reference to the circumstances out of which they arise, and are dealt with as ordinary transactions, the new Bill Receivable being passed through the Bills Receivable Book and credited to the debtor in the usual way.

A form of Bills Receivable Book appears on page 81 containing three specimen transactions.

When a trader has acquired a Bill Receivable from one of his debtors it becomes possible, should he so desire, to convert it into ready money, by disposing of it to a banker or to some other person or institution dealing in commercial paper. To successfully dispose of bills before maturity it is of course essential that the acceptor's credit should be favourably regarded in commercial circles. Naturally the trader will not receive, when selling a bill maturing several months ahead, the full amount which will be payable at its maturity; the purchasing banker will require some profit in the way of interest upon the amount advanced by him in accommodating the trader, consequently, when buying the bill, the purchaser will make a deduction from the face value ultimately receivable. This deduction is termed "**Discount,**" and is computed at the interest upon the face value of the bill from the date of its purchase (or its "discount") until the date at which it is payable, at such rate per cent. per annum as the credit of the acceptor and the general condition of the money market will justify the purchaser in demanding. For example, if a trader, on January 1st, receives A. Brown's acceptance for £100 maturing on March 4th (*i.e.* March 7th, allowing for three days of grace), and sells this bill subject to discount to his banker on January 4th, at 4 per cent., the discount charged will be the equivalent of 62 days' interest on £100 at 4 per cent. per annum, *i.e.* 13*s.* 7*d.*

The banker, consequently, credits the trader with £99 6*s.* 5*d.* in exchange for the bill for £100, and this transaction will appear in due course in the trader's Pass Book in one of two ways, according to the custom of the particular bank in question. The practice of some banks is to credit their customer with the net amount (£99 6*s.* 5*d.*) realized by the sale of the bill, while other banks prefer to credit their customer with the face value (£100), debiting him simultaneously with the discount (13*s.* 7*d.*); the effect of course is the same in either case.

The trader who disposes of a Bill Receivable by discounting it with his bankers should record the transaction in his books according to the latter of the two methods adopted by bankers as described above; and this rule holds good in every case, whether his banker has

employed this method in connection with this particular bill, or the alternative procedure.

In the example given above the trader should consequently debit his Cash Book (in the "Bank" column) with the face value of the bill (£100), posting this item at the same time to the credit of the "Bills Receivable" Account in the Ledger in manner similar to that adopted where a Bill Receivable is paid at maturity. In order to record the amount of the discount (13*s.* 7*d.*) a credit entry should be made in the "Bank" column of the Cash Book, which should be posted to the debit of "Banker's Discount" or "Bank Charges" Account in the Ledger. The discount charges made by a banker in connection with the Bill Receivable bought by him from the trader must not be confounded either with the "cash discount" allowed by the trader upon payments made to him by his debtors, or with any "Trade discount" which may be deducted from the nominal catalogue price of goods sold; consequently it must not be placed in the "Discounts" column in the Cash Book. The discount deducted when selling a Bill Receivable corresponds with the interest paid to a bank in return for a loan, and should therefore be grouped with "Bank Interest" and other "Bank Charges."

The "remarks" columns on the extreme right-hand side of the Bills Receivable and Bills Payable Books are intended for the insertion of any useful notes regarding the fate or history of any particular acceptance; in the case of Bills Receivable which are discounted, a memorandum of their having been thus disposed of should be placed in the "remarks" column, and the same course should be adopted in the case of any Bills Receivable which have been returned "dishonoured" at maturity.

Returns Books

It frequently happens that, when a trader has purchased a quantity of goods, either for use in manufacturing or for immediate re-sale, portions of the goods supplied to him are found, upon delivery, to reveal some defect, or prove to be unsatisfactory in some respect; *e.g.* goods may arrive having been damaged in course of transit, or, where bought in bulk, portions of them may be inferior in quality to the type of goods contracted for, or they may prove to be "not up to sample."

In such cases the trader usually at once returns the

unsatisfactory goods to the firm from whom he has bought them, claiming at the same time an allowance equal to their full invoice value. Where the selling firm is one of good reputation, and is desirous of keeping the trader's custom, this allowance will usually be readily conceded.

It consequently becomes necessary to provide a special book of original entry to contain the record of these returns by the trader (known as "**Returns Outwards**"), and to marshal them in such book in the proper form for subsequent posting to the Ledger.

A return by the trader to the seller of goods found to be unsatisfactory is, in effect, equivalent, from a book-keeping point of view, to a re-sale of the goods to the original seller, this re-sale taking place at the original agreed cost of the goods to the trader, and it is upon these lines, therefore, that the book-keeping record of the "Return" is framed. In other words, the original transaction is allowed to pass through the Purchases Book, irrespective of the fact that some of the goods are subsequently "returned," and the "Return" in question is treated in due course as a special kind of sale (*i. e.* a re-sale).

The **Returns Outwards Book** follows upon lines almost precisely similar to those employed in the Purchases Book, as is obviously necessary, in view of the fact that the entries in the former book are intended ultimately to reverse certain entries in the latter. The entries in the Returns Outwards Book are posted *in detail* to the *debit* of the original sellers' accounts in the trader's Ledger, and the periodical totals of the returns are posted (usually monthly) to the *credit* of the Impersonal Ledger Account, headed "Returns Outwards." It will be remembered that the purchases are posted in the Ledger upon opposite sides, viz. to the *credit* of the seller's Personal Account (in detail) and to the *debit* of the "Purchases" Account (in total).

It was explained when dealing with the record of purchases, that simple forms of Purchases Books are met with as well as the more complex "analyzed" forms, examples of which were given: so also both simple and complex types of Returns Books are met with. It will in fact, probably be obvious to the student that whichever form of Purchases Book has been adopted must be complemented with a precisely similar type of Returns

Outwards Book in order that harmony of system and analysis may be maintained throughout.

Specimen forms of Returns Outwards Books are appended, an illustration being given both of the simple and complex types, and these books may be taken to correspond (as Returns Outwards Books) to the two types of Purchases Book given as illustrations on pages 56 and 59. The entries appearing in these specimen books, it is thought, do not require any fuller explanation.

RETURNS OUTWARDS BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£	s.	d.	£	s.	d.
1909. Jan. 1	*Brown & Co.*— 2 Bales woollen goods damaged in transit...	84				28	10	0
,, 10	*Wilson Bros.*— 2 Pieces cotton prints..		10	0	0			
	3 ,, silk not up to sample....................		7	5	0			
		36				17	5	0
	Carried forward...					£45	15	0*

* On the supposition that no further Returns of Goods were necessary during the period (usually a month), £45 15*s.* 0*d.* would be posted to the credit of the "Returns Outwards Account" in the Ledger.

Where an analyzed form of Returns Outwards Book is used the Returns Outwards Account in the Ledger should be ruled in columns corresponding with the departments, or scheme of sub-division, adopted in the Purchases and Returns Books, just as the Purchases Account is ruled to correspond in this manner on page 59. The necessary ruling for the Returns Outwards Account is identical with that on page 59, except that the account is on the Credit side of the Ledger instead of on the Debit side, and the title of the account is, of course, appropriately changed.

Just as a trader may find it necessary to return goods to the persons from whom he has purchased them, so, in his turn, and for similar reasons, it frequently becomes necessary for him to receive back some of the goods sold by him to his customers.

Having agreed to the return of the goods in question, a "**Credit Note**" (usually printed in red ink) should be sent by the trader to each customer returning goods, setting out the value at which such goods have been taken back.

The forms of books used to record such "**Returns Inwards**" are almost identical with those employed to record "Returns Outwards," subject, of course, to the fact that the entries contained therein are posted in detail to the *credit* of the person by whom they have been returned, and that the total (for the given period) is *debited* ultimately to a "Returns Inwards Account" in the Ledger.

As was explained to be the case in connection with Returns Outwards, simple forms of **Returns Inwards Books** are met with, as well as the more complex analyzed forms, and in conjunction with the latter, an analyzed form of Returns Inwards Ledger account is found in use, just as was stated to be the practice in reference to "Sales," "Purchases," and "Returns Outward."

It will hardly be necessary to point out that in every case the form of the Returns Inwards Book must complement the form of the Sales Journal in use.

Specimen forms of Returns Inwards Books (simple and complex) are appended, the entries in which will, it is thought, prove to be self-explanatory.

The form of analyzed Returns Inwards Ledger Account to be employed in conjunction with the analyzed Returns Inwards Book follows upon lines identical with the ruling set out on page 64 for the "Sales Account," subject, of course, to the alteration of the heading of the account and the reversal of the sides of the Ledger upon which the items appear.

RETURNS INWARDS BOOK (Simple Form)

Date.	Particulars.	Ledger Folio.	£	s.	d.	£	s.	d.
1909.								
Jan. 2	*Harriman Bros.*—							
	30 Bags coffee............ ..	41				75	0	0
	(Returned as out of condition)							
" 2	*Buckley Bros. & Co.*—							
	1 Bag cocoa................ ...		2	10	0			
	25 Bags coffee................		60	0	0			
	(Returned as not up to sample)	61				62	10	0
	Carried forward ...				£	137	10	0*

* On the supposition that no further transactions took place during the period (*e.g.* a month), £137 10*s.* 0*d.* would be posted to the debit of the "Returns Inwards Account" in the Ledger.

RETURNS OUTWARDS BOOK (Analyzed Form)

Date.	Returned to.	Particulars.	Ledger Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total. £	s.	d.
1908.															
Dec. 5	Brown & Co.	2 Jackets, seal, moth-eaten..................	21	60	10	0							60	10	0
,, 5	Wilson Bros.	2 Pieces sheeting, soiled	42							1	8	10	1	8	10
		Carried forward...		£60	10	0				£1	8	10	£61	18	10

NOTE.—On the supposition that no further "Returns Outwards" took place during the period (*e. g.* the month), £61 18*s.* 10*d.* would be posted to the credit of the "Returns Outwards Account" in the Ledger.

RETURNS INWARDS BOOK (Analyzed Form)

Date.	Returned by.	Particulars.	Ledger Folio.	Furs. £	s.	d.	Woollen Goods. £	s.	d.	Cotton Goods. £	s.	d.	Total. £	s.	d.
1908.															
Dec. 6	Horniman & Son..	4 Pieces sheeting.......... 2 Cases of fancy goods, returned as unsuitable.	34							12	0	0	12	0	0
,, 8	Menaggio Bros....	1 Package assorted skins, poor colour	36	37	15	0							37	15	0
,, 9	Gremaud & Cie ...	1 Bale woollen goods torn in transit...........	49				26	16	0				26	16	0
		Carried forward...		£37	15	0	£26	16	0	£12	0	0	£76	11	0

NOTE.—On the supposition that no further transactions took place during the period (*e. g.* the month), £76 11*s.* 0*d.* would be posted to the debit of the "Returns Inwards Account" in the Ledger.

EXERCISES.

8A.

Rule a form of Bills Receivable Book for the use of Viner & Co., and enter therein the following bills received—

1909.

April 3. Received from Harris Bros., accepted by them under date April 2nd, 1909, the 3 months' sight draft for £1,000 drawn by ourselves (Viner & Co.) in our own favour. Payable at the London & Eastern Bank, Norwich.

„ 7. Received from Wilson & Co. a draft, due April 25th, 1909, dated January 22nd, 1909, drawn by them upon Child Bros. for £150, in their own favour, the same being accepted payable at the Bank of Ireland, Dublin.

„ 15. Received from Salviati Frères a draft dated April 13th, 1909, due 3 months after date, drawn by Michel & Cie upon the Banque d'Avignon, Avignon, and accepted by the latter payable at the British & Foreign Banking Company, Ltd., Lombard Street, London, for £500.

8B

Rule a suitable form of Returns Outwards Book for John Gill, containing columns for Tea, Coffee, and Cocoa departments, and pass the following transactions through the same—

1909.

June 1. Returned to Vesey & Son 5 chests of tea, invoiced at £10 per chest, as not up to sample.

4. Returned to Warren Bros. 25 bags of coffee, invoiced at £2 10s. per bag (subject to 5 per cent. trade discount), and 3 bags of cocoa, invoiced at £3 per bag net, the same having been injured by damp during transit.

„ 15. Returned to V. Massey 5 bags of coffee, invoiced at £2 5s. per bag net, owing to insufficiency of contents.

„ 19. Returned to Warren Bros. 3 bags of cocoa of inferior quality, invoiced at £2 per bag (not up to sample), and 2 bags of coffee, invoiced at £3 each (in excess of quantity contracted for).

8C.

1. What is the special utility of a Bill Receivable given in discharge of a debt between traders, (1) as regards the person drawing it, (2) as regards the acceptor?

2. Explain the manner in which a Bills Payable Account in the Ledger is constructed, and briefly describe the entries appearing in it on either side; in what book would you expect to find the details in explanation of the balance appearing at the close of a year on the Bills Payable Account in the Ledger?

3. A. B. receives a bill from C. D., one of his debtors, accepted by the latter; A. B. discounts this bill with the Union Banking Company, Ltd.; explain the entries necessary in A. B.'s books in order to record these transactions.

4. Explain the nature of, and the difference between, "Returns Inwards" and "Returns Outwards"; give two examples of causes for which a trader may "return" to the seller goods purchased by him from the latter.

5. Distinguish between (1) Trade Discount, (2) Cash Discount, (3) Banker's Discount, and explain the circumstances in which these types of discount arise in the course of a trader's operations. Show how they are recorded.

6. Explain the uses of the "Returns Outwards" Account in a trader's Ledger; what eventually becomes of the balance upon this account?

7. A. B., a trader, holds a bill for £100 accepted by Y. Z.; the bill is paid into A. B.'s bank for collection at maturity and is returned dishonoured. What entries must be made in A. B.'s books (1) for the amount of the bill, (2) for the charge for "noting" (1*s.* 6*d.*)?

8. Y. Z. subsequently pays A. B. in cash half the amount of the bill described in the preceding question, together with the noting charges, and hands him a fresh acceptance for the balance; show how these transactions should be recorded in A. B.'s books.

8D.

Rule a form of Bills Payable Book for the use of Smith & Co., and enter therein the following Bills Payable accepted by them. All bills are made payable at the Fleet Street Branch of the London and Western Bank.

1909.

Oct. 25. Accepted Michael Frères' draft (to be charged to their account) at 30 days' sight, for £500, in favour of Lucien Ignace & Cie.

,, 25. Accepted the Glamorganshire Tinplate Works', Ltd., draft for £326 19*s.* 4*d.*, at 3 months from date thereof (Oct. 22nd, 1909), in favour of themselves and for their account.

,, 26. Accepted, for account and on behalf of the Chicago and Southern Packing Company, a draft at 3 months after sight, drawn by their London agents (the Greenwich Importing Co., Ltd.) in favour of E. V. Harris Bros., Incorporated, for £1,000.

,, 27. Handed to W. Dobson & Co. our acceptance, dated to-day, in their favour for £100, at 3 months date, in settlement of the balance owing to them.

,, 28. Accepted a bill payable at 3 days after sight, drawn by the Eastern Townships, Ltd., of Calgary, for £250, in favour of the Canadian Banking Company; this draft is to be charged to Beavis & Co., Ltd., of London.

Answers.—8A. Total of Bills Receivable Book, £1,650.
8B. Total of Returns Outwards Book, £141 12*s.* 6*d.*
8D. Total of Bills Payable Book, £2,176 19*s.* 4*d.*

CHAPTER IX

THE TRIAL BALANCE, AND THE TRADING AND PROFIT AND LOSS ACCOUNTS

A **Trial Balance** is a classified list of the balances appearing, at any given date, in the Ledger or Ledgers before the closing entries have been made. In extracting this list of balances the Debit and Credit balances are separated by being placed in their different and appropriate columns.

The form of Trial Balance in general use is as follows—

TRIAL BALANCE

Ledger Folio.	Name of Account.	Dr.			Cr.		

When entering balances in a Trial Balance a considerable number of examination candidates enter the *gross totals* of the Debit and Credit sides of each Ledger account instead of the *balance only* of the account in its appropriate column. The author has only seen the former method in actual practice on very rare occasions, and students will be wise to bring themselves into line with modern methods by showing *balances only* in any Trial Balances they may have to prepare.

In every Trial Balance the total of the Debit balances should agree with the total of the Credit balances, and unless this agreement occurs it must be assumed that a mistake has been made either in the Ledger, the books of original entry, or in the compilation of the Trial Balance itself. The fact that, in any given case, the total Debit and Credit balances appearing in the Trial Balance do agree, the one with the other, does not necessarily furnish conclusive proof that the whole of the book-keeping has

been correctly accomplished, for errors may have been made on both credit and debit sides for the same amount, the error on the one side compensating for that on the other, or an "error of principle" may have been committed without necessarily upsetting the arithmetical balance of the books, *e.g.* expenditure which should properly have been treated as a "loss" may have been ranked as an asset, or *vice versa*. Briefly put, the agreement of a Trial Balance merely proves that there is a debit for every credit, behind which agreement errors of omission, commission, and of principle may yet remain undiscovered. In practice, however, the agreement of the totals of the Trial Balance is generally taken to indicate that the work has been done with an ordinary degree of care and accuracy, and, unless some error comes to light subsequently to falsify this assumption, the attainment of an "agreed" Trial Balance is usually looked upon as practically conclusive proof of the accuracy of the books.

A Trial Balance is usually prepared at the end of any given trading period (*e.g.* at the end of a half-year or year), although, in some commercial concerns, where special circumstances exist to render such a course advisable, monthly, fortnightly, or even weekly "balances" are effected. In an ordinary small trading concern, however, "balancing" frequently coincides only with the end of the trading period.

Prior to the preparation of a Trial Balance the totals of all the Journals (*e.g.* "Sales," "Purchases," etc.) should be compiled and posted to their respective Ledger accounts, although, in practice, this is not always done in cases where a Trial Balance is prepared at a date other than the end of a fixed trading period. If these Journal totals are not actually posted in the Ledger they must be taken into the Trial Balance as if they had been so posted. In view of the fact that the Cash Account is a Ledger account, bound up separately, the balance of the Cash Book must also, of course, be included in the Trial Balance. The same remark applies to the balance of the Petty Cash Book, in cases where the latter has been kept upon the lines laid down in Chapter IV.

A specimen Trial Balance is appended, the figures contained in which have been subsequently used as a basis for the preparation of the Trading and Profit and Loss Accounts, illustrated later on in this chapter, and for the Balance Sheet explained in the following chapter.

THOMAS ROBINSON.

TRIAL BALANCE, December 3, 1908

Ledger Folio.	Name of Account.	Dr.			Cr.		
5	Capital Account				2,054	16	1
9	Freehold Premises	2,700	0	0			
16	Stock (Jan. 1, 1908)........ ..	1,294	15	0			
31	R. Wilson & Co.	715	3	1			
61	Browning Mfg. Co., Ltd....				1,024	13	9
24	Purchases Account	6,932	17	4			
84	Sales Account				9,846	12	4
121	Returns Inward	36	13	7			
36	Discounts allowed	104	3	9			
49	Bills Receivable	3,760	0	0			
62	Bills Payable...				1,735	10	0
201	Salaries	437	10	2			
97	General Expenses	315	14	6			
142	Rates and Taxes..............	180	4	9			
187	Fixtures and Fittings Account	125	0	0			
47	R. Buckley (Loan Account)				3,000	0	0
62	Interest Account	150	0	0			
C.B. 114	Cash at Bank	895	6	11			
114	Cash in Hand..................	14	3	1			
		£17,661	12	2	£17,661	12	2

NOTES.—The value of the Stock on hand on December 31st, 1908=£426 17*s.* 2*d.*
Expenses due December 31st, but not yet paid=£10.
10 per cent. depreciation is to be written off the Fixtures and Fittings Account=£12 10*s.*

It will be observed that the total Debit and Credit balances appearing in the above Trial Balance agree, and, as indicated above, an inference as to the probable correctness of the work consequently arises.

The two sides of a Trial Balance may disagree by reason of one or more errors of varying kinds; when the totals of the Debit and Credit balances fail to agree, the cause of such want of agreement should always be sought for before proceeding further with the book-keeping. The author has known an apparent discrepancy of twopence cover errors of a quite serious amount.

In extreme cases it is sometimes almost impossible to obtain a Trial Balance the two sides whereof agree, and in such event, in practice, an agreement is sometimes forced by making a one-sided entry in some Ledger account, preferably in the "Suspense" or "Differences" Account. Such a proceeding, however, is not to be resorted to in any save extraordinary circumstances, and, even in these cases, it must always reflect upon the

character of the book-keeping, and is an entire departure from the strict principles of Double Entry. Given time, patience, and accuracy, every Trial Balance *can be made to agree* legitimately in the ordinary manner.

In seeking for the error which has caused any particular Trial Balance to disagree, the book-keeper should first satisfy himself that the Trial Balance itself has been correctly compiled from the Ledger, and that its extraction and addition are correct. If this examination fails to disclose the cause of the difference, the error must be sought for in the Ledger itself, and in the books of original entry.

If any transaction has been entered twice on the Debit side of accounts in the Ledger instead of, as should have been the case, on the Debit side of one account and on the Credit side of another account, the Trial Balance will obviously differ by twice the amount of the item; similarly, if an entry has been posted on the correct sides in the Ledger, but for differing amounts, it will be impossible to make the Trial Balance agree (*e.g.* a credit entry in the Cash Book of £174 11*s.* 10*d.* posted incorrectly to the debit in the Ledger as £174 1*s.* 10*d.* will produce a difference of 10*s.* on the Trial Balance).

Again, if any addition, either in the Ledger or in any book of original entry, be incorrectly made, it will affect the correctness of the balance appearing on the relative Ledger account, and hence cause disagreement in the Trial Balance. A frequent cause of disagreement in the Trial Balance is the fact that some item, or items, remain unposted. Errors of this kind should, however, be easy of detection, as the space opposite the item provided for the entry of the posting folio remains blank. Should, however, the Ledger reference have been inserted without the completion of the posting, nothing short of an exhaustive checking of the postings for the period will discover the omission.

For errors such as those described above it must be the task of the book-keeper to seek, and, in extreme cases, he may even find it necessary to follow through every posting appearing in his Ledger and books of original entry, and to verify every addition. The work entailed may be laborious and, indeed, almost prohibitive, but no reasonable basis of certainty as regards the correctness of the books can be attained until the Trial Balance has been brought to agreement.

Such an error as the debiting or crediting of any particular item on its correct side in one Ledger account instead of in another (*e.g.* the crediting of £100 received from A. Roberts to the account of J. Roberts & Co.) will not cause the Trial Balance to disagree; such errors will only become apparent as the result of a careful scrutiny of the Ledger accounts, or through complaints from customers of the inaccuracy of the statements rendered to them.

The Trading and Profit and Loss Accounts

Having agreed the Trial Balance of any particular set of books the next step towards a final statement of the trader's financial position is the ascertainment, by means of a Trading Account and a Profit and Loss Account, of the net result of the trading for the period, as regards the profit made or the loss sustained.

It has already been stated (Chapter V) that the purchases, sales, and other items which go to form the Trading Account appear, in the modern Ledger, in separate accounts. It has also been explained that it is necessary that items of this nature should be brought together at the end of the period in a combined account, called a

Trading Account

The Trading Account contains, in summarized form, all the trader's transactions, occurring throughout the trading period, in the commodities in which he deals. Upon the *debit* side of the account appear the opening Stock of goods on hand (*i.e.* the stock with which the trading period was started), the Purchases made during the period at cost price, and occasionally the analogous items of Returns Inwards when such have occurred. It must, however, be pointed out that the Returns Inwards appear more frequently, and more suitably, upon the credit side of the Trading Account as a *deduction* from the gross figure of the Sales for the period rather than upon the debit side, as, so to say, re-purchases of goods; this treatment, moreover, is theoretically correct, as Returns of this nature are very different from Purchases of goods undertaken by the trader upon his own initiative, and should not therefore appear as such.

In cases also where Returns Inwards have been made by customers, the total sales for the period will be overstated if they are shown in the trading account at the

figure they would have reached had no Returns taken place.

Upon the *credit* side of the Trading Account appear the Sales (usually the net figure after deducting Returns). Returns Outwards may occasionally be met with, in manner analogous to the Returns Inwards, set out upon the credit side of the Trading Account as if they resembled sales of goods sent back to the party from whom they were bought, but, in this case, also, it is preferable to show them as a *deduction* from the "Purchases" figure appearing on the debit side of the account. The reasons for this procedure will be obvious, and are similar to those which apply in the case of Returns Inwards.

When the foregoing items have been incorporated in the Trading Account it remains, (*a*) firstly to include in the account the ascertained value of the *Stock of goods on hand* at the end of the trading period, and (*b*) secondly to ascertain the *Gross Profit* which has accrued.

The closing stock is credited, at the amount at which it has been valued, in the Trading Account, and is debited to the Stock Account by means of a Journal entry (see page 76).

The form of the Trading Account compiled as indicated above is the simplest form in use, and is applicable to such businesses as sell goods in practically the same state in which they acquire them. The student must, however, understand that in practice he will find, in many cases, that the Trading Account will contain various items in addition to those enumerated above. The object of a properly prepared Trading Account should be to show the *gross profit* made upon the amount realized for the goods sold, after charging the actual cost of rendering such goods marketable. It is impossible to dogmatize upon so contentious and wide a question as that which is raised when determining the nature of the items which should actually appear in a Trading Account, and it must be acknowledged that considerable difference of opinion exists in expert circles upon the matter. It will be clear, however, that in many cases Carriage, Manufacturing Wages, Duty, Freight, and items of this nature, forming, as they practically do, part of the cost of the goods sold, are actual and essential charges before the true gross profit upon handling the goods of such businesses can be arrived at.

In the opinion of the author it is not advisable to make

any pedantic endeavour to enlarge the charges debited in a Trading Account. In his opinion, the items charged should be confined to those which represent the direct cost of production, and the account should be prepared on broad and simple lines as far as possible, and maintained upon a consistent basis, so that useful comparisons may be available from year to year. A sample of an efficient Trading Account for a manufacturing business in illustration of these views is as follows—

JAMES SMITH.

TRADING ACCOUNT for the Year ended December 31st, 1908

1908.		£	s.	d.	£	s.	d.	1908.		£	s.	d.	£	s.	d.
Jan. 1	To Stock (Initial)							Dec. 31	By Sales..........						
Dec. 31	" Purchases.....								*Less* Returns						
	Less Returns							" 31	" Stock (Final).						
" 31	" Manufacturing Wages......														
" 31	" Carriage........														
" 31	" Balance carried to Profit and Loss Account, being Gross Profit for the year....														

When all the preliminary steps enumerated above have been effected, it will be found, in an ordinary case, that the total of the items appearing on the credit side of the Trading Account is in excess of the total of the various debits to the account; such difference represents the trader's "**Gross Profit**" for the period. The "Gross Profit" made on any particular article is the excess of the selling price over the cost price of the article dealt in, and the gross profit for a given period represents the amount by which the total of the proceeds of the sales for the period exceeds the total cost of producing the articles sold. Out of this gross profit the trader has to pay the various expenses incurred in carrying on his business, and the final balance remaining, after the deduction of such expenses, represents his "**Net Profit**" for the period.

The Gross Profit shown upon the Trading Account is consequently transferred to the trader's Profit and Loss Account immediately upon its ascertainment (for specimen Journal entry, see page 76), and, in this Account, it is subjected to the deduction of all the working expenses

incurred by the trader in order that the actual Net Profit derived from carrying on the business may be accurately arrived at.

It occasionally happens that the total credits (for Sales and closing Stock) in the Trading Account are less in amount than the debits (for Purchases and opening Stock). When this happens it indicates that the trader has not only made no Gross Profit on his goods, but that he has made a **Gross Loss**; or, in other words, that he has been disposing of his goods at a less price than they have cost him. Obviously such an occurrence will be rare, and, when met with, will probably be found to be due to some special circumstance, such as a sudden fall in the price of the articles dealt in at a time when the trader was overstocked with goods, or the unexpected alteration of the customs duty on the raw materials used by the trader in manufacturing his goods. In cases where a Gross Loss appears on the Trading Account it is transferred to the Profit and Loss Account, as in the case of a Gross Profit (the requisite entry being a credit to the Trading Account and a Debit to the Profit and Loss Account). The Gross Loss on trading is then augmented by the various debits for working expenses, and the other charges against the business, until a total figure representing the **Net Loss** for the period has been built up.

The Trading Account (simple form) arising out of the specimen Trial Balance given on page 93 is appended, and will be found to exemplify the principles laid down above.

TRADING ACCOUNT for the Year ended December 31st, 1908

Dr. **Cr.**

1908.		£	s.	d.	1908.		£	s.	d.	£	s.	d.
Jan. 1	To Stock on hand........	1,294	15	0	Dec. 31	By Sales.......	9,846	12	4			
Dec. 31	,, Purchases...............	6,932	17	4		*Less* Returns Inwards	36	13	7			
,, 31	,, Balance, being Gross Profit for the year, carried to the Profit and Loss Account..	2,009	3	7						9,809	18	9
					,, 31	,, Stock on hand.........				426	17	2
	£	10,236	15	11		£				10,236	15	11

Having ascertained, by means of the Trading Account, the amount which represents the *Gross Profit* earned by the business, there remains, as the next step, the accurate assessment of the amount of the *Net Profit* which may

be regarded by the trader as the actual income earned by the business during the period under review.

Lord Justice Lindley said, during the course of a much quoted case, "the word 'profit' is by no means free from ambiguity," nor have the many definitions of the word offered by various political economists afforded much practical assistance to the student.

The question "What is profit?" is a large one, and of great interest, but the many considerations involved are far too complex for the scope of this treatise. And, after all, the student, at this stage, will probably be wise to rest content with the broad commercial acceptance of the term as expressed by Mr. Justice Kekewich that "profit is the sum which is ascertained by the taking of a proper account of what has been made by trading," in other words, Profit may be broadly stated to be the amount by which the Capital of a business is increased during any given period by reason of the business transactions effected during that period. In order to ascertain this amount it is necessary to prepare a

Profit and Loss Account

The Profit and Loss Account of a trader, and, indeed, of any business venture, is the statement wherein the various items of profit and revenue on the one hand, and all the losses and expenses incurred on the other hand, are *collected and offset*, the one class against the other—the simple rule to remember, in compiling such an account, being—*debit all the losses, credit all the gains*. The resulting balance of this account at the conclusion of this process represents the **Net Profit** or the **Net Loss** arising out of the trading operations for the period under review.

According to modern practice, and as has been previously explained, separate Ledger accounts are opened at the beginning of a trading period for each type of "profit" or "expense," and it is to these accounts that the individual items of this nature occurring throughout the trading period have been posted. At the end of the period all these subsidiary "profit" or "expense" accounts are closed by means of transfers of the balances appearing on them to the combined "Profit and Loss Account." Fresh subsidiary accounts under the same headings are then opened in order to record the "profit"

or "expense" items occurring in the succeeding trading period. Provisions and Reserves, for outstanding expenses and other items, are carried forward in the particular "profit" or "expense" accounts to which they relate at the end of a trading period, in order to avoid the unnecessary trouble of opening numerous special Reserve Accounts for the various individual items; this procedure, however, does not affect the main principle that the balance of all "loss" and "profit" accounts must be transferred at the end of the trading period to the appropriate sides of the combined "Profit and Loss Account."

The practice of carrying forward reserves for losses or gains appears to create some confusion in the minds of many students, and furnishes a cause of frequent error in examination exercises. It would seem advisable, therefore, to deal with the general methods employed in detail.

What actually occurs, in a case where it is desired to make a provision in any particular Expense Account for a debt incurred but not yet paid, is that, to the pre-existing Debit items appearing in the account, a Debit entry (representing the expense incurred) is added for the amount of the outstanding item in question, and at the same time a corresponding Credit entry (representing the liability yet to be satisfied) is made at the commencement of the particular Expense Account, for the next trading period. As the Ledger account has to be closed later on, it is necessary to make this Credit entry at a sufficient distance below the level of the existing entries to permit of the insertion of the necessary transfer entry to the Profit and Loss Account, and the totals of the account on either side, together with the customary transverse lines across the money columns.

This principle is illustrated by the following example.

Example.—In the "Repairs Account" of a trader for the year 1908 the following payments appear as debits, viz. March 31st, £32 14*s*. 6*d*., September 26th, £17 4*s*. 2*d*. On December 31st (the closing date of the trading period) the trader owes, to various contractors, small sums for repairs effected during the year but not yet paid for, amounting in all to £10 6*s*. 9*d*.

The most economical and effective way of incorporating in the Repairs Account the £10 6*s*. 9*d*. owing at the end

of the period is by means of a "Reserve" (or "Provision"), as under—

Dr. REPAIRS ACCOUNT Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Mar. 31	To Cash	C.B. 27	32	14	6	Dec. 31	By Transfer to Profit and Loss Account..	J. 164	60	5	5
Sep. 26	" "	C.B. 29	17	4	2						
Dec. 31	" Reserve for sundry amounts due but not yet paid, carried forward	Contra	10	6	9						
		£	60	5	5			£	60	5	5
						1909. Jan. 1	By Reserve brought forward...	Contra	10	6	9

NOTE.—It will be obvious to the student that, in extracting the Trial Balance of the trader's books, it will be necessary to schedule "Repairs Account" in the *debit* column at £60 5*s.* 5*d.*, and to enter the £10 6*s.* 9*d.* in the *credit* column as a Sundry Creditor.

It will be noted that in the above example the amount of £10 6*s.* 9*d.* owing at the end of the year is *debited* prior to the ruling off of the account (the item is consequently incorporated in the total of £60 5*s.* 5*d.* transferred to the Profit and Loss Account for the year), and the same amount is *credited* below the ruling off of the account as a Reserve (*i.e.* a "liability") to be satisfied in due course in the year following. The effect of this treatment is that when the amounts thus reserved for are actually paid in the new year, the necessary Credit entry in the Cash Book can be posted direct to the Debit of the Repairs Account in the Ledger in the usual way, in company with all similar expenditure incurred in the new year.

Instead of bringing down the £10 6*s.* 9*d.* as a Reserve, or credit balance, on the Repairs Account, it would, of course, have been possible to open a "Sundry Creditors" Account in the Ledger for the accommodation of this type of item. This is a method involving more care and labour than the practice explained above. Such a course necessitates special care that the cash payment, when made, shall be posted to the Debit of the "Sundry Creditors" Account, and *not* to the "Repairs" Account; or, if the cash entry is posted direct to the Debit of the Repairs Account, a re-transfer from the "Sundry Creditors" Account to the

"Repairs" Account of the amount set aside becomes essential. In either case the necessary adjustment is not unlikely to be overlooked.

The example previously given is that of a Reserve made in order to provide for a specific item of "Expense" incurred, but not yet paid, at the date of balancing, and it will be obvious to the student that many other circumstances may call for the creation of Provisions and Reserves in a similar manner, *e.g.* Reserves for discounts allowable and for losses arising from the failure of debtors, and also, on the other hand, it may be necessary to create Reserves for profits earned but not yet received, as well as for Expenses incurred but not yet paid, *e.g.* Reserves for rents due to the trader but not yet received by him, and Reserves made for profits estimated to have been made upon foreign shipments, the statements of the realization of which have not yet been finally adjusted.

There is one kind of loss which is, unfortunately, only too common in the experience of most traders, viz. the loss arising out of the insolvency of debtors, and as the methods of providing for losses of this character differ in commercial practice, and appear to present special difficulties to many students, it is worth while to consider them in some detail.

In an ordinary trading business the whole body of book debts outstanding at any given date may generally be divided into three classes, viz. (1) those which are expected to be duly paid (in other words, those which are "good"), (2) those which are wholly irrecoverable (in other words, those which are "bad"), and (3) those of which there is possibility, but not certainty, that they will be paid either in full or in part, and which are classed as "doubtful."

Upon the realization of "good" book debts the question of loss obviously does not arise.

Book debts which are known to be wholly irrecoverable (*i.e.* "bad") must be written off on or before the date of balancing the books, by means of an entry *crediting* the individual debtor's Personal Account with the amount of the balance owing by him, and *debiting* an account entitled "Bad Debts" with a like amount. The balance appearing upon such "**Bad Debts Account**" must, at the date of the preparation of a Profit and Loss Account, be debited, in one total, as a loss in the latter account. In this way debts which are wholly bad become cancelled in

the trader's ledger, and are duly charged against the profits of the undertaking.

There remain to be considered those book debts for which, for one reason or another, it is inadvisable to anticipate payment in full, but which are not, so far as can be foreseen, entirely hopeless, or, in other words, debts which may be reasonably expected to be paid, at least in part, at some future date.

Two methods of assessing the estimated loss on this kind of debt exist; one practice is to carefully examine, in detail, all the debtors' accounts outstanding in the trader's Ledger with the assistance, if necessary, of some official conversant with the condition of such accounts, and deciding *seriatim* which portions of individual debtors' balances will probably prove to be irrecoverable, and consequently need to be provided for out of current profits. For the total amount of the expected loss thus arrived at the necessary reserve can then be made. An investigation upon these lines, in order to ascertain the *partly* irrecoverable book debts for "reserve" purposes, can be made simultaneously with such examination as is needful to ascertain the *wholly* irrecoverable balances in order to write them off to the "Bad Debts Account."

For the total reserve thus deemed needful a Journal entry must be passed, *debiting* the Profit and Loss Account and *crediting* the "**Reserve for Bad and Doubtful Debts Account.**"

An alternative method, and one which is simpler and far more common, especially where the debtors' balances are very numerous, is to set aside, in each trading period, as a Reserve for Bad and Doubtful Debts, a fixed percentage (*e.g.* 5 per cent.) of the total debtors' balances remaining after all the wholly "bad" debts have been written off to the "Bad Debts Account."

In this case again the entry required in order to create the Reserve is a *debit* to the Profit and Loss Account, coupled with a *credit* to the "Reserve for Bad and Doubtful Debts Account."

The "Reserve" thus raised for Bad and Doubtful Debts (*i.e.* for debts which are not yet considered to be wholly irrecoverable) at any particular date of balancing should be carried forward in the books until the next date of balancing, when its sufficiency to cover the estimated loss on the debts outstanding at this *second* date of balancing will be reconsidered. At such second date

of balancing the same process of writing off, direct to the Bad Debts Account, all wholly irrecoverable balances is again effected, and, either by examination of the remaining debtors' balances then outstanding, or by reserving a fixed percentage upon them the amount of the "Reserve for Bad and Doubtful Debts" requisite at the second date of balancing is again arrived at. If the Reserve required at the second date of balancing exceeds the Reserve which was made at the first date of balancing (which reserve will already be standing in the books) a further Reserve for the excess must be made out of the current profits; conversely, if the Reserve required at the later date be less than the Reserve which is at that date already standing as a *credit* balance upon the books the excess must be transferred to the credit of the Profit and Loss Account.

The methods explained above are illustrated in the subjoined example, in which the provision for Bad and Doubtful Debts (as distinguished from Bad Debts wholly written off) is placed at 5 per cent. upon the total of the debtors' balances left upon the trader's books after writing off all actual bad debts. The reserve for Bad and Doubtful Debts built up during the years 1906 and 1907 is greater than is needed for the year 1908, and a re-transfer to the Profit and Loss Account consequently becomes necessary.

Example.—The following details as to Bad and Doubtful Debts are extracted from A. B.'s books.

It is required to show the entries involved in the following accounts, viz. (1) *The Bad Debts Account*, (2) *The Reserve for Bad and Doubtful Debts Account*, (3) *The Profit and Loss Account.*

December 31, 1906. Bad Debts to be written off C. D., £60; E. F., £95, both being wholly irrecoverable.

Five per cent. is to be reserved for Bad and Doubtful Debts on £1,100, being the total amount owing by the debtors then outstanding.

December 31, 1907. Bad Debts to be written off C. H., £10; I. J., £75.

Five per cent. is to be reserved for Bad and Doubtful Debts on £2,500, this being the total amount owing by the debtors then outstanding.

December 31, 1908. Bad Debts to be written off K. L., £60; M. N., £50.

Five per cent. is to be reserved for Bad and Doubtful Debts on £1,500, this being the total amount owing by the debtors then outstanding.

BAD DEBTS ACCOUNT

Dr. Cr.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1906. Dec. 31	To C. D. debt written off............		60	0	0	1906. Dec. 31	By Transfer to Profit and Loss Account..........		155	0	0
,, 31	,, E. F. debt written off............		95	0	0						
		£	155	0	0			£	155	0	0
1907. Dec. 31	To C. H. debt written off............		10	0	0	1907. Dec. 31	By Transfer to Profit and Loss Account.		85	0	0
,, 31	,, I. J. debt written off............		75	0	0						
		£	85	0	0			£	85	0	0
1908. Dec. 31	To K. L. debt written off............		60	0	0	1908. Dec. 31	By Transfer to Profit and Loss Account..........		110	0	0
,, 31	,, M. N. debt written off............		50	0	0						
		£	110	0	0			£	110	0	0

RESERVE FOR BAD AND DOUBTFUL DEBTS ACCOUNT

Dr. Cr.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1908. Dec. 31	To Transfer to Profit and Loss Account, being amount in excess of reserve of 5 per cent. needed for bad and doubtful debts reserve on £1,500, debtors' balances outstanding at this date................		50	0	0	1906. Dec. 31	By Transfer from Profit and Loss Account, being 5 per cent. on £1,100, debtor's balances at this date..............		55	0	0
,, 31	,, Balance carried down		75	0	0	1907. Dec. 31	,, Transfer from Profit and Loss Account to complete 5 per cent. on £2,500, debtors' balances outstanding at December 31, 1907...............		70	0	0
		£	125	0	0			£	125	0	0
						1908. Dec. 31	By Balance brought down, being reserve of 5 per cent. on £1,500 debtors' balances outstanding at this date..............		75	0	0

PROFIT AND LOSS ACCOUNTS

(Showing such extracts only as relate to the Bad and Doubtful Debts entries appearing therein.)

Dr. **1906.** Cr.

Date	Particulars	£	s.	d.	Particulars	£	s.	d.
1906.								
Dec. 31	To Bad Debts written off	155	0	0				
,, 31	,, Reserve for Bad and Doubtful Debts at 5 per cent.	55	0	0				

Dr. **1907.** Cr.

Date	Particulars	£	s.	d.	Particulars	£	s.	d.
1907.								
Dec. 31	To Bad Debts written off	85	0	0				
,, 31	,, Reserve for Bad and Doubtful Debts at 5 per cent.— Dec. 31, 1907 £125 0s. 0d. *Less* amount reserved Dec. 31, 1906 £55 0s. 0d.	70	0	0				

Dr. **1908.** Cr.

Date	Particulars	£	s.	d.	Particulars	£	s.	d.
1908.								
Dec. 31	To Bad Debts written off	110	0	0	By Bad and Doubtful Debts— Amount reserved Dec. 31, 1907 £125 0s. 0d. *Less* amount reserved Dec. 31, 1908 £75 0s. 0d.	50	0	0

BALANCE SHEET, December 31st, 1906.

Liabilities.	£	s.	d.	*Assets.*	£	s.	d.	£	s.	d.
				By Sundry Debtors	1100	0	0			
				Less Reserve for bad and Doubtful Debts at 5 per cent.	55	0	0	1045	0	0

If, after any debt has been written off as wholly "Bad," any portion of it is recovered (*e.g.* a dividend of 1*s.* in the £ under bankruptcy proceedings), the sum so recovered may be credited to the Bad Debts Account of the year during which it is received. It will obviously be impossible to credit the dividend to the debtor from whose estate it comes, as the whole of the balance owing by him will have been written off as a bad debt and his account already closed.

A "Reserve" Account, created for the purpose of providing for the anticipated loss on Bad and Doubtful Debts should, when preparing a Balance Sheet, be deducted from the item "Sundry Debtors"; the net figure thus extended into the principal cash column of the Balance Sheet then represents the actual estimated cash value of the trader's book debts at the date of balancing according to the best information available. Some examination candidates show the Reserve for Bad and Doubtful Debts as a *liability*, and take credit for the gross total of the book debts in their Balance Sheet as an asset; the incorrectness of this treatment will be obvious when it is remembered that the reason for creating the Reserve is to eliminate the irrecoverable portions of various debtors' balances from such as are wholly good, the process of elimination should therefore be clearly exemplified in the Balance Sheet.

When a Trial Balance, which contains a credit balance under the heading "Bad and Doubtful Debts Reserve," is given in an examination exercise, some candidates appear to be at a loss to know how to deal with the item, and frequently enter it as a separate liability in the Balance Sheet, making a fresh reserve of (say) 5% on the amount of the Sundry Debtors, the whole of which reserve they debit, in due course, to the Profit and Loss Account. A credit balance of this nature, when appearing in a Trial Balance, indicates, of course, that, in the previous year, a Reserve was made which was carried forward to the following year, and is now available towards the Reserve which it is necessary to create upon the new total of Sundry Debtors.

A careful examination of the accompanying illustrations will make this point clear to such students as have been confused by the matter.

"Reserves for special purposes," consisting of amounts taken credit for, or set aside for the purpose of accurately

adjusting the profits for a given period, must not be confused by the student with those more or less permanent accumulations of Profits earned but not distributed, which are styled "*Reserve Funds*," or "*Reserve Accounts*."

A "**Reserve Fund**" (or, as some accountants prefer to call it, a "Reserve"), such as appears in the Balance Sheet of a great Banking Company, for instance, is an accumulation of profits which have been retained in the business instead of having been divided "up to the hilt" among the shareholders. Such retention of profits has been made, generally speaking, for the purpose of strengthening the credit of the undertaking, by providing against some unforeseen calamity or contingency, with the object of accumulating working capital, or for some other conservative purpose of a more or less general nature. Some Banking Companies possess Reserves, built up out of past profits, equal in amount to their entire paid-up capital, and many possess in addition "Secret Reserves," obscured in various ways, for the purpose of further enhancing the financial stability of the undertaking, and, incidentally, to ensure that their shareholders may be secured from undue fluctuations of business profits.

Some accountants contend that an accumulation of profits so retained in a business cannot legitimately be styled a Reserve "*Fund*" unless it is offset, on the Credit side of the Balance Sheet, by an equivalent sum of money withdrawn from the resources of the undertaking and invested outside the business in gilt-edged securities. An accumulation not thus independently invested they prefer to designate by the term "*Reserve*" or "*Reserve Account*." The question has been further complicated by controversies as to the practical utility of a Reserve which is not invested in easily realizable outside securities. This, however, is a subject upon which it is, in point of fact and in practice, impossible to lay down any dogmatic rule for universal adoption; except, of course, in cases where the fund is raised for some specific purpose (*e.g.* the redemption of debentures). The question of the utility of an independently invested reserve, and of the disadvantages of an uninvested reserve, are in reality questions of business finance rather than matters of accounting, and can only be satisfactorily decided after careful consideration of the merits of each individual case. The question, too, of the appropriate designation for an

amount of Profits set aside in a Balance Sheet is merely one of nomenclature, and, after all has been said, any expression which clearly conveys to the mind of an ordinary individual the exact position of affairs is admissible, even though it may not meet with academical approval. The American term "Surplus" and the old-fashioned expression "Rest" (the latter still employed by the Bank of England) are, in the opinion of some experts, preferable to the terms "Reserve" and "Reserve Fund," when used to express the fact that certain profits have been retained in the concern, and are not separately invested.

The scope of this treatise does not permit of any detailed investigation into the niceties of these various significations, nor, in the author's opinion, would it be wise for the student, at this stage, to embarrass himself with too much research into what, after all, is largely a matter of pedantry. The student will, however, be wise to adopt some consistent nomenclature for items of this nature, and it is suggested that, where the Reserve is separately invested, the term "*Reserve Fund*" should be adopted, and that where such Reserve is retained in the business, "*Reserve Account*" is a suitable and convenient term to employ.

Another type of adjustment which constantly needs careful consideration at the time when a Profit and Loss Account is in course of preparation, is the provision necessary for the depreciation of any assets which have decreased in value owing to one cause or another. **Depreciation** is the term employed by accountants to indicate the gradual and inherent diminution both in the value and the usefulness of those assets which, by reason of their nature and uses, cannot endure for ever.

On reflection, the student will comprehend that many of the assets used in a business necessarily partake of this "wasting" nature, and only a few examples need be given. Plant and Machinery "depreciate" through use or obsolescence. Leases, Patent Rights and other grants for a limited period of time obviously become less and less valuable as the date of their expiration approaches. Where an asset thus endures for a limited period only, at the end of which time, or "life," it becomes either absolutely worthless, or practically so, the amount originally expended upon its acquisition must

be "written off" to the Profit and Loss Account in instalments spread over the period during which the asset is of use and benefit in carrying on the business. This charge to the Profit and Loss Account is, in its nature, just as much a necessary business expense as the moneys expended each week on postages or wages. The example of a lease for a term of years, purchased by the payment of a lump sum (or "premium") at the outset, offers perhaps as good an illustration from the student's point of view as can be taken. In such cases, in lieu of a quarterly or other periodical payment of "rent," a premium is paid down in a lump sum at the outset, and the trader obtains in exchange for this premium the right to occupy, for whatever term he has contracted, the premises covered by the lease. The premium, in this case, amounts practically to the present payment of a large sum for rent in advance, and this anticipation of future obligations must obviously, in the trader's accounts, be spread over the period to which it relates. The necessary adjustment is accomplished by debiting the original cost of the lease to an "asset" account ("Leasehold Premises"), and by "Depreciating" the amount at which such asset stands periodically, *i.e.* by transferring periodical portions of the Ledger debit to the Profit and Loss Account.

A lease at the end of its term obviously has no residual value; its worth has disappeared absolutely; but, on the other hand, wasting assets of a more tangible nature, *e.g.* machinery, frequently have a residual value, if only as "scrap-iron," even after their usefulness to the business has ceased to exist. In cases of this kind, the asset must be written down, over its period of usefulness, not necessarily to complete extinction, but to its residual value for sale when no longer useful as a business asset.

The gradual and inherent *wasting* of assets, properly termed "Depreciation," must be carefully distinguished from the mere *fluctuation* in current market values, at any particular time, of assets similar in kind to those under consideration. It frequently happens that, when a trader has purchased an asset for use, its market value, or the current cost of similar articles, falls seriously owing to external causes, *e.g.* land may fall in value owing to the district in which it is situated becoming unpopular, and plant may possibly be obtainable at cheaper rates owing to the introduction of some new invention. These outside

fluctuations are, of course, matters for which a trader *may* provide in his Profit and Loss Account should he so desire; and he will usually be wise to do so if circumstances permit. Recognition of shrinkages in value of this nature may be prudent; it cannot, however, be claimed that they are provisions which *must* be made in the same sense that depreciation proper must be provided for; and, in certain cases, if brought into a trader's accounts, it is even permissible to disregard their effect in considering the business as an entity by itself.

The amount by which any asset is required to be depreciated during the trading period must be made the subject of a *debit* entry either direct to the Profit and Loss Account or to the "Depreciation Account" for subsequent transfer to the Profit and Loss Account. The corresponding *credit* entry is made in the account of the individual asset itself, thereby diminishing its book value by the amount of the "depreciation" sustained, and leaving to be carried forward a sum representing, as far as possible, the true present value of the asset.

In the case of many assets depreciation is effected by writing off an equal sum of money in each year (this sum is usually expressed as a fixed percentage of the original cost), while in cases where increasing expenditure for repairs may be expected, as the asset deteriorates owing to increasing age, it is perhaps more usual to write off each year a certain fixed percentage of the *balance* which, at the end of that year, appears to the debit of the asset account. In this latter method it is obvious that the sum of money debited to the Profit and Loss Account under the head of "Depreciation" grows less year by year, inasmuch as the balance upon the Asset Account is, each year, less than that which was shown in the year before, this *diminishing* charge for depreciation is counterbalanced by the *increasing* charge which will naturally be incurred for repairs as the asset grows older.

The difference between these two methods may perhaps be usefully illustrated by the following example. Let us assume that certain machinery, the original cost of which was £1,000, is depreciated in the books of Firm A. by a fixed annual charge of 20 per cent. on the *original cost*, and, in the books of Firm B., by an annual charge of 20 per cent. of the *diminishing balance* standing from time to time to the debit of the Asset Account; the respective working of the accounts would be as follows:—

FIRM A.'s BOOKS.

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the original cost.)

		£	s.	d.			£	s.	d.
1899.					1899.				
Jan. 1	To cost of Machinery.......	1000	0	0	Dec. 31	By 1 year's depreciation..........	200	0	0
					,, 31	,, Balance carried forward..	800	0	0
		£1000	0	0			£1000	0	0
1900.					1900				
Jan. 1	To Balance brought down..	800	0	0	Dec. 31	By 1 year's depreciation.........	200	0	0
					,, 31	,, Balance carried forward..	600	0	0
		£800	0	0			£800	0	0
1901.					1901.				
Jan. 1	To Balance brought down..	600	0	0	Dec. 31	By 1 year's depreciation.........	200	0	0
					,, 31	,, Balance carried forward..	400	0	0
		£600	0	0			£600	0	0
1902.					1902.				
Jan. 1	To Balance brought down..	400	0	0	Dec. 31	By 1 year's depreciation.........	200	0	0
					,, 31	,, Balance carried forward..	200	0	0
		£400	0	0			£400	0	0
1903.					1903.				
Jan. 1	To Balance brought down..	200	0	0	Dec. 31	By 1 year's depreciation.........	200	0	0

FIRM B.'s BOOKS.

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the diminishing balance.)

		£	s.	d.			£	s.	d.
1899.					1899.				
Jan. 1	To cost of Machinery.......	1000	0	0	Dec. 31	By 1 year's depreciation..........	200	0	0
					,, 31	,, Balance carried forward..	800	0	0
		£1000	0	0			£1000	0	0

Firm B.'s Books (*continued*)—

MACHINERY ACCOUNT

(Depreciation charge, 20 per cent. on the diminishing balance.)

		£	s.	d.			£	s.	d.
1900.					1900.				
Jan. 1	To Balance brought down..	800	0	0	Dec. 31	By 1 year's depreciation	160	0	0
					,, 31	,, Balance carried forward..	640	0	0
		£800	0	0			£800	0	0
1901.					1901.				
Jan. 1	To Balance brought down..	640	0	0	Dec. 31	By 1 year's depreciation	128	0	0
					,, 31	,, Balance carried forward..	512	0	0
		£640	0	0			£640	0	0
1902.					1902.				
Jan. 1	To Balance brought down..	512	0	0	Dec. 31	By 1 year's depreciation	102	8	0
					,, 31	,, Balance carried forward..	409	12	0
		£512	0	0			£512	0	0
1903.					1903.				
Jan. 1	To Balance brought down..	409	12	0	Dec. 31	By 1 year's depreciation	81	18	5
					,, 31	,, Balance carried forward..	327	13	7
		£409	12	0			£409	12	0
1904.									
Jan. 1	To Balance brought down..	327	13	7					

It will be noticed that the fixed annual charge of 20 per cent. on the original cost (Firm A.'s books) completely extinguishes the Machinery Account at the end of five years, while writing off 20 per cent. of the *diminishing balance*, appearing on the Machinery Account from time to time (Firm B.'s books), does not extinguish the asset over the same period, there being a balance of £327 13*s*. 7*d*. remaining at the end of the fifth year.

Two other methods of making provision for the depreciation of assets are found in practice; one resembles the method previously illustrated in the case of Firm A.'s

books, in that an equal amount is written off each year, but this amount is calculated so as to permit of interest being charged periodically to the Asset Account so that some compensating allowance, in the way of interest, may be taken credit for in the Profit and Loss Account upon the capital locked up, for the time being, in the asset.

Under this method the amount to be written off each year is arrived at from fixed tables, and, contemporaneously with each periodical instalment of depreciation written off, a debit entry is made in the Asset Account for interest for the period upon the balance shown at the commencement of the period on the Asset Account. This interest is credited either in the "Interest Account" or in the Profit and Loss Account.

This method of providing for depreciation is suited in the main to assets costing considerable sums at the outset, and continuing in their usefulness for long periods, *e. g.* leases.

The fourth method of providing for depreciation is by means of a policy of insurance. Upon the purchase of the asset, a policy, termed a "pure endowment" policy, or a policy of leasehold assurance, is obtained from an Assurance Company to secure repayment, at the end of the period of the asset's usefulness, of the sum originally expended in its acquisition. A premium, annual or otherwise, must be paid by the person taking out the policy, and, inasmuch as the latter provides for the complete replacement of the asset at its stated period, the premiums paid may be taken to equal, and therefore to satisfy, all the allowance necessary for depreciation. In cases, therefore, where this method is employed, the asset may be left on the books at its original cost price, and the premiums paid may be written off, as and when paid, to the Profit and Loss Account.

The foregoing items, viz. Reserves, Depreciation, and Provisions, are perhaps the matters most frequently requiring consideration when the preparation of a Profit and Loss Account is contemplated, and, having thus endeavoured to describe them briefly, the general lines upon which the account itself is compiled may be proceeded with.

In the Trading Account all the balances relating to the trader's transactions in goods (*e. g.* "Sales," "Purchases," "Stock," etc.) are, as has already been explained, combined so as to produce one figure of "Gross Profit" or "Gross

Loss." This "Gross Profit" or "Gross Loss" is transferred to the appropriate side of the Profit and Loss Account immediately upon its ascertainment, and forms the opening entry in the latter account.

All the remaining balances appearing on the Trial Balance which represent either "profits" or "losses" are next sought for, and by means of Journal entries, similar to those outlined on page 76, are transferred from the respective Ledger accounts upon which they appear into the combined "Profit and Loss Account." The resultant balance shown upon the Profit and Loss Account represents the *net result* of the trader's operations for the given period, and is either a "**Net Profit**" or a "**Net Loss**" according as the items upon the right-hand side of the account (viz. the "profits" and "gains") exceed those appearing upon the left-hand side of the account (*i. e.* the "losses" and "expenses"), or *vice versa*.

The figure of Net Profit or Net Loss thus arrived at is transferred, in the case of a sole trader, to the credit of his capital account if a profit, and to the debit of the same account if a loss, and this transfer, appearing in due course in the Journal, forms the final entry for any given period of trading. An example of such a transfer will be found on page 76.

THOMAS ROBINSON.

PROFIT AND LOSS ACCOUNT for the Year ended December 31st, 1908

Dr. Cr.

1908.			£	s.	d.	1908.			£	s.	d.
Dec. 31	To Salaries....	41	437	10	2	Dec. 31	By Gross Profit brought from the Trading Account	16	2009	3	7
" "	,, General Expenses.......	38	325	14	6						
" "	,, Rates and Taxes........	14	183	4	9						
" "	,, Interest.....	8	150	0	0						
" "	,, Discounts allowed......	10	104	3	9						
" "	,, Depreciation of Fixtures and Fittings	91	12	10	0						
" "	,, Balance, being Net Profit for the year, transferred to J. Robinson's Capital Account	45	799	0	5						
		£	2009	3	7			£	2009	3	7

The Profit and Loss Account relating to the specimen Trial Balance given on page 93, viz. that of Thomas Robinson, is set out on page 115. It will be noticed that the items of (1) Outstanding expenses, £10, and (2) Depreciation of Fixtures and Fittings, £12 10*s*., have been brought into the Account; these two items will, of course, affect the Ledger accounts to which they relate, and will cause corresponding adjustments in the Balance Sheet to be illustrated subsequently.

As will be explained later on in this treatise, it is customary, in modern practice, particularly in the case of limited companies, to present the Profit and Loss Account in three or more sections, in which the various debits and credits are scientifically classified.

EXERCISES.

9A.

1. Define the term "Trial Balance," and explain the method of its construction.

2. If the Debit and Credit sides of a Trial Balance agree in amount is this a conclusive proof that the whole of the book-keeping has been correctly accomplished? If not, to what extent is the construction of a Trial Balance valuable to the book-keeper?

3. What are (1) a "Trading Account," (2) a "Profit and Loss Account" respectively, and what is the difference between them?

4. How should "Returns Inwards" and "Returns Outwards" be dealt with in a Trading Account?

5. Explain the terms: (1) Gross Profit, (2) Gross Loss, (3) Net Profit, (4) Net Loss.

6. Explain how you would provide, in a set of books, for an amount of £10 arranged to be set aside out of profits to cover numerous small expenses incurred prior to the date of balancing, the statements for which have not yet come in.

7. What is meant by "Depreciation"? How would you provide for it in the books of a trader? Discuss alternative methods of providing for this charge.

8. Discuss briefly, and in an elementary way, the subject of "Reserves" and "Reserve Funds." Give the use of these two different terms as indicated for general adoption in this present treatise.

9. Define and explain the terms: "Profit," "Surplus," "Residual Value of a Wasting Asset," "Rest."

10. If a piece of machinery expected to last for five years, bought a year ago for use by A. B., and costing then £1,000, could now, owing to manufacturers of such articles being overstocked, be bought for £500, is it necessary or advisable to allow for such fall in values in the books of A. B.? Give your reasons. What depreciation allowances are necessary?

9B.

From the subjoined particulars prepare the Trading Account and the Profit and Loss Account of O. Hyslop for the year ended December 31, 1908.

	£	s.	d.
Stock of Goods on hand, January 1, 1908	3,096	10	0
Sales	35,932	15	1
Purchases	34,364	3	9
Returns Inwards	3,921	0	3
Returns Outwards	2,091	17	10
Wages	425	16	4
Salaries	394	12	1
Postages	38	17	9
Interest received on Deposit Account Balance at the Bank	100	4	1
Discounts Received	365	2	8
Discounts Allowed	39	4	2
Rent, Rates, and Taxes	274	9	8
General Expenses	214	0	11
Telephone Subscription	36	10	0
Stock of Goods on hand, December 31, 1908	6,245	17	11

9C.

From the following Trial Balance prepare Trading and Profit and Loss Accounts for the year ended December 31, 1908, incorporating therein the effect of the various provisions required to be made at the end of the year 1908, as set out in the notes on the next page.

R. BRIDGES.

Trial Balance as on December 31, 1908.

	£	s.	d.	£	s.	d.
Capital Account.				6,933	1	3
Stock (January 1, 1908) . . .	1,090	0	0			
Sales				22,164	1	9
Purchases	20,764	9	1			
General Expenses	463	5	1			
Returns Inwards	364	9	5			
Salaries and Wages	1,296	5	9			
Discount				26	9	5
Banker's Interest and Charges . .	25	16	4			
Bank Loan.				8,000	0	0
Freehold Premises	7,650	0	0			
Leasehold Premises, ten years to run from January 1, 1908 . . .	3,250	0	0			
Income Tax	124	19	5			
Furniture Fittings and Fixtures .	694	12	9			
Debtors, A. King	465	9	8			
W. Jones	392	15	4			
Creditors, R. Stevens				1,001	4	11
J. Brown				341	9	8
Bills Receivable.	1,000	0	0			
Cash at Bank	319	4	5			
Freight and Cartage on goods sold .	564	19	9			
	£38,466	7	0	£38,466	7	0

9c. (*continued*).

Notes.—

	£	s.	d.
Stock on hand, December 31, 1908, was valued at	4,091	16	11
Write off W. Jones's Debt as irrecoverable .	392	15	4
Write 10 per cent. Depreciation off Leasehold Premises	325	0	0
Write 10 per cent. Depreciation off Furniture, Fittings, and Fixtures	69	18	3

9D.

From the following list of balances extracted from the books of V. Roberts, prepare a Trial Balance as on December 31st, 1908.

V. ROBERTS.

Balances, December 31, 1908.

	£	s.	d.
Capital, V. Roberts	2,000	0	0
Purchases	12,465	12	9
Sales	23,149	12	3
Stock (Jan. 1, 1908)	7,264	0	9
Sundry Creditors	2,175	6	11
Bills Payable	3,200	0	0
Furniture and Fixtures	200	0	0
General Expenses	1,264	12	9
Wages and Salaries	729	13	6
Bank Loan (secured by mortgage of Premises) .	2,000	0	0
Premises, Freehold	5,000	0	0
Sundry Debtors	2,194	13	2
Returns Inwards	32	14	3
Bank Interest and Charges	121	4	9
Mr. C. Roberts, Loan Account (repayable Jan. 1, 1912)	2,000	0	0
Charitable Donations	5	0	0
Printing and Stationery	124	9	6
Discounts Allowed	122	17	3
Discounts Received	4	5	9
Cash at Bank	521	3	4
Cash in hand	3	2	11
Patents and Goodwill	2,000	0	0
Bills Receivable	2,480	0	0

Answers.—

9B. Gross Profit, £2,888 16*s.* 10*d.* ; Net Profit, £1,930 12*s.* 8*d.*
9c. Gross Profit, £4,037 0*s.* 2*d.* ; Net Profit, £800 9*s.* 8*d.*
9D. Totals of Trial Balance, £34,529 4*s.* 11*d.*

CHAPTER X

THE BALANCE SHEET

It has already been explained, in the preceding chapter, that the first steps necessary for a trader to take towards the ascertainment of his financial position, at the end of a trading period, consist of (1) the preparation of an agreed Trial Balance, followed by (2) the compilation of a Trading Account and a Profit and Loss Account.

By this means the net balance of all the accounts representing "losses" or "gains," or containing elements of loss or gain, are combined, and the net result of this combination, in the shape of profit or loss, is ultimately carried to the trader's "Capital Account." When this process has been completed, the balances still remaining upon the Ledger consist exclusively of (*a*) credit balances known as "**Liabilities**" (ranking "Capital Account" and "Reserve Account" as liabilities), and (*b*) debit balances, or "**Assets.**"

In order to ascertain the financial position of the trader at the date of balancing, and after the elimination of all the "Profit and Loss" balances, the liabilities and assets appearing on his Ledger at that date are arranged in the form of a classified schedule or statement called a "**Balance Sheet.**" The "Balance Sheet" is, strictly speaking, a second Trial Balance prepared after the closing of the Profit and Loss Account, in which, however, according to commercial practice in this country, the sides upon which the items appear are reversed; consequently the trader's possessions (Assets) are marshalled in the Balance Sheet upon the right-hand (or Credit) side of the statement, while his Liabilities (including his Capital) appear on the left-hand (or Debit) side.

If one is to pursue, with strict consistency, the theory governing the Double Entry system, a Balance Sheet, being merely a transcript of Ledger balances, is, of course, not a Ledger account itself; it is merely a classified statement of the final balances appearing on a trader's Ledger

after writing up his Profit and Loss Account and closing his books for a given period. In accordance with this view, therefore, the contractions "Dr." and "Cr." (debit and credit) should never appear upon a Balance Sheet. As a matter of consistency, also, the prefixes "To" and "By" should be omitted, but, as a matter of practice, they are almost invariably retained.

In fairness to the student, however, it must be clearly pointed out that many accountants maintain that the Balance Sheet is an *actual account* as between the business and its Debtors and Creditors, including the proprietor, and where this view is held both the contractions and the prefixes mentioned above are legitimately used.

The object of stating Ledger balances in the form of a Balance Sheet is to convey to the trader himself, or to any person whom it may concern, a clear and concise statement of the trader's financial position in a summarized form.

The term "**Statement of Affairs**" is also applied, under certain circumstances, to an account or statement purporting to disclose the financial position of a business concern or trader. In Bankruptcy proceedings the phrase has a special technical meaning which we need not here discuss. When the term is used in accounting circles, however, it is generally meant to convey the fact that the statement has not been prepared from a set of books kept upon the "Double Entry" system, but from books in which "Single Entry" or other incomplete methods have been employed. The term "Balance Sheet," on the other hand, implies that the facts set out therein convey a concise statement of the financial position under review, as disclosed by a set of books kept upon the Double Entry system. The student should bear this distinction in mind, as it is important.

Although every balance remaining on a trader's Ledger must, of course, be included in his Balance Sheet, it does not follow that in the latter all the Ledger balances are, as in the case of a Trial Balance, stated separately and in detail. It will, in fact, be obvious to the student that such a proceeding would be impracticable. Where, therefore, there exist several Ledger balances of a more or less similar nature, *e.g.* amounts due to or from various creditors or debtors, it is the practice to group such similar Ledger balances together and to include them in the Balance Sheet in one combined total; consequently the amounts due to a trader's trade creditors will usually be

found in his Balance Sheet grouped under the one heading of "**Sundry Trade Creditors**"; the various book debts owing to him at the same date being scheduled in a combined total as "**Sundry Debtors.**"

This process of grouping together Assets or Liabilities of a kindred nature is extended to other possessions and liabilities when marshalled for Balance Sheet purposes. Indeed, it will be obvious that in order that the Balance Sheet may be expressed in as concise, and yet in as lucid a form as possible, some system of grouping and classification must always be inevitable. At the same time, it must be borne in mind, that as is the case with many other useful accounting methods, grouping and classification may be carried to excess in a Balance Sheet. If the Balance Sheet be loosely drawn, items of a dissimilar nature may be erroneously grouped together under a heading which may fail to disclose their real nature in its entirety, and the Balance Sheet, instead of being a lucid statement, may, by this and other misuses, be distorted so as to show a better or a worse financial position than exists in reality. It is therefore necessary that the preparation of a Balance Sheet should be undertaken with care and deliberation, and that the interpretation which will probably be placed upon its component items by an outside observer should be borne in mind. A properly-prepared Balance Sheet should be capable of being understood by any ordinarily intelligent observer, even assuming him to be unacquainted with the details of the particular business in question, and it should convey its story to him in a clear and unmistakable manner. If it fails to comply with these requirements it cannot be claimed as having successfully fulfilled the *métier* of an ideal Balance Sheet.

The Balance Sheets on the following page have been prepared from the Trial Balance set forth on page 93, after the compilation of the Trading and Profit and Loss Accounts set forth respectively on pages 97 and 115.

The student will note that, in these specimen Balance Sheets, the Assets (being the debit balances remaining upon the trader's Ledger) appear on the Credit or right-hand side, and the Liabilities on the left-hand or Debit side.

The space at the author's disposal does not permit of any excursion into the ancient and still smouldering controversy as to the correct side upon which to place

THOMAS ROBINSON.

BALANCE SHEET as on December 31st, 1908

LIABILITIES.		£	s.	d.
To Thomas Robinson, Capital Account—				
As on January 1, 1908	2,054 16 1			
Add—				
Profit for the year 1908	799 0 5	2,853	16	6
,, Loan Account—				
R. Buckley		3,000	0	0
,, Sundry Creditors :—				
Browning Mfg. Co.	1,024 13 9			
Expenses outstanding	10 0 0			
Bills Payable	1,735 10 0	2,770	3	9
		£8,624	0	3

ASSETS.		£	s.	d.
By Freehold Premises taken at cost		2,700	0	0
,, Fixtures and Fittings—				
As on January 1, 1908	125 0 0			
Less—				
Depreciation at 10 per cent. p.a.	12 10 0	112	10	0
,, Stock valued at cost price		426	17	2
,, Sundry Debtors—				
R. Wilson & Co.	715 3 1			
Bills Receivable	3,760 0 0	4,475	3	1
,, Cash—				
At the Bank	895 6 11			
In hand	14 3 1	909	10	0
		£8,624	0	8

THOMAS ROBINSON.

BALANCE SHEET as on December 31st, 1908

LIABILITIES.		£	s.	d.
To Sundry Creditors—				
Browning Mfg. Co.	1,024 13 9			
Expenses outstanding	10 0 0			
Bills Payable	1,735 10 0	2,770	3	9
,, Loan Account—				
R. Buckley		3,000	0	0
,, Thomas Robinson, Capital Account—				
As on January 1, 1908	2,054 16 1			
Add—				
Profit for the year 1908	799 0 5	2,853	16	6
		£8,624	0	8

ASSETS.		£	s.	d.
By Cash—				
At the Bank	895 6 11			
In hand	14 3 1	909	10	0
,, Bills Receivable		3,760	0	0
,, Sundry Debtors—				
R. Wilson & Co.		715	3	1
,, Stock valued at cost price		426	17	2
,, Fixtures and Fittings—				
As on January 1, 1908	125 0 0			
Less—				
Depreciation at 10 per cent. p. a.	12 10 0	112	10	0
,, Freehold Premises at cost		2,700	0	0
		£8,624	0	8

the Assets and Liabilities when preparing a Balance Sheet.

The controversy is an interesting one, but at this stage of the student's progress it will be sufficient for him to know that, in the United Kingdom, the practice of placing the Liabilities upon the left-hand side and the Assets upon the right-hand is now practically universal.

It will be noticed that the figures composing the above Balance Sheet have been drawn up or "marshalled" in two alternative forms. The two methods of marshalling the Assets and Liabilities set out therein are those in most frequent use in modern practice. The first example shows the Assets set out in the order of their permanence and unrealizability at short notice. The second example shows the Assets marshalled in the order in which they could be most easily realized.

As will be explained later on, the first example given above exhibits the order in which Assets are marshalled in the great majority of the published accounts of limited companies.* The second method has, however, much to commend it. No dogmatic rule can be laid down upon a matter of this sort, where expert opinions legitimately differ, and the student will be safe in adopting either method, provided he carries it out reasonably and consistently.

The Assets set forth in the second Balance Sheet, as already explained, have been arranged in the order of their realizability, *i.e.* according to the degree of facility with which they could, under ordinary circumstances, be converted into Cash. The most liquid of the Assets shown, viz. Cash, has been placed at the head of the statement, as, being cash, it is already "realized," and the other Assets which follow may be taken, in normal circumstances, to be realizable in the order in which they are shown; *e.g.* the Bills Receivable, maturing at fixed dates not far ahead, are taken to be more easily encashed by being discounted on or before maturity, than the amounts owing by the ordinary trade debtors; again, book debts may be taken to be more readily realizable than the

* As a matter of curiosity the author recently divided the published accounts of 49 well-known companies, taken at random, into the two classes mentioned above, with the result that 42 companies were found to have adopted the former of the two methods described, while the remaining seven companies (mostly banks) had adopted the latter principle.

trader's Stock of Goods on hand, and the latter in its turn ranks before the Capital which has been sunk in acquiring the Fixtures and Fittings and Freehold Premises.

When this method of marshalling the Assets is made use of, it should be complemented on the debit side of the statement in which they appear by adopting an arrangement of the Liabilities in the order in which the various creditors could enforce their claims. Under this method the Capital Account would, of course, appear last.

The principle of stating Assets in the order of their realizability is one which may usefully be extended to the Balance Sheets of Banks and kindred financial undertakings. As explained above, it is, of course, a matter of individual opinion and taste as to whether it is wiser to place the most "realizable" or the most "unrealizable" asset at the head of the statement. Whichever method the student adopts he must, however, take care to make sure that the remaining Assets are consistently grouped, according to the order in which they may be ranked as "realizable" or "unrealizable," so that a due succession of convertibility, or otherwise, may be preserved.

It may be stated also that, as a general rule, the more difficult an asset is to realize, the greater will be the loss on its realization if hurriedly effected. The loss entailed by rapidly calling in a large number of trade debts will probably be less, on a percentage basis, than the loss which would ensue if land and buildings or plant and machinery were put up to auction and sold without reserve; further, items as "Goodwill" and "Fixtures," though originally they may have been costly to acquire, may be absolutely useless for the purposes of raising immediate funds. It is upon the wise preservation of a reasonable and adequate proportion of a trader's resources in a liquid form (*e.g.* Cash, Book Debts, and Bills Receivable), having regard to the amount of his trade creditors and other immediate indebtedness, that the ability of the trader to honour his obligations, and therefore to maintain his commercial credit, must always depend. It would, perhaps, be difficult to over-estimate the benefits which have accrued to traders from the advantages afforded by the system of commercial credit operating in this country. The student cannot too clearly comprehend, however, that every credit operation implies a possible cash transaction. The trader therefore, if he be prudent, whilst making every legitimate use of the advantages

afforded by his commercial credit, will make every wise provision for the cash demands involved by his credit operations.

It is, of course, impossible to give any list or classification of Assets which can lay any claim to be exhaustive, but the following list includes some of the most frequently-occurring types ranged in the order of their realizability. and may prove helpful to the student—

Class I.	Cash in hand.
	Cash at the Bank.
	Consols and other "gilt-edged" securities readily dealt in on the Stock Exchange and capable of immediate encashment.
Class II.	Bank Deposits for short terms.
	Securities dealt in on the Stock Exchange for the fortnightly settlements.
	Remittances in transit.
	Loans on short call (secured).
Class III.	Bills Receivable.
	Trade Book Debts.
	Outstanding interest.
	Calls outstanding (Joint Stock Companies), and other personal obligations capable of being called in at short notice.
	Business loans on security.
	Loans on mortgage.
	Reversions purchased (if transferable).
Class IV.	Stock on hand.
	Goods sent out on consignment to other persons for sale.
	Work in progress.
Class V.	Land and buildings, (*a*) freehold and (*b*) leasehold, (*c*) in town or (*d*) country.
Class VI.	Plant and Machinery.
Class VII.	Goodwill, Patent Rights, assets or undertakings of exceptional nature.
	Fixtures and Fittings.
Class VIII.	Obsolete plant and machinery, land in undeveloped districts, "development" and other expenditure of a like nature.
	"Preliminary Expenses." (Balance of this account not yet written off.)

In considering a Balance Sheet, the student must be warned against falling into the somewhat common error

of imagining that the items placed on the Credit side of the statement represent of necessity tangible property capable of being readily converted into the exact sums of money placed against each asset. Sufficient has already been said above to indicate that different types of property possess widely differing degrees of realizability, both as regards the time required to convert them into money, and as regards the actual amount likely to be produced by their forced sale. Again, many of the Assets acquired by a trader are frequently suitable for his particular type of business only (*e.g.* plant and machinery of special kinds). Such Assets necessarily fall considerably in market value directly they are ranked, for selling purposes, as "second-hand"; the fact that their money value to an immediate seller has depreciated in this way is a matter quite apart from their cost, or their present value, to the owner for *use in a "going concern."* The student must clearly grasp the fact that this element of the differing values of Assets, when viewed from such widely divergent standpoints, is one which it is neither necessary nor possible to take completely into account when preparing the Balance Sheet of the actual user. Provided always that, by means of adequate provision for depreciation, the Assets are gradually reduced to their residual or "scrap" value at the end of their period of usefulness, market fluctuations may be ignored in the books of an owner for use, and this fact forms one of the instances which exemplify the differences which must always exist between "book" and "market" values.

It would be quixotic, too, in the case of intangible Assets like "Goodwill," to imagine that, in the majority of cases, they are immediately saleable at a price approximate to the figure at which they stand in the owner's books; the monetary sum set out against the asset in the Balance Sheet in these cases represents the "cost" to the owner, or the amount of capital he has expended in this direction, and bears no necessary reference to the amount which the asset would produce if sold.

All that can be wisely claimed for a properly-prepared Balance Sheet is that it discloses a conservative view of the trader's financial position, after making such provisions as are necessary in order to reduce his Assets to their true present value to the trader as the proprietor of a "*going concern.*"

No trader's Balance Sheet does or can profess to

represent the financial position which would result if the Assets set out therein were immediately placed upon the market.

In the opinion of the author the student will be wise to accustom himself to refer to the two sides of the Balance Sheet as the "Debit" and "Credit" sides, rather than as the "Liabilities" and "Assets" sides of the statement. A little thought and inquiry will soon demonstrate the fact that the latter and more popular nomenclature is often incorrect. As its name implies, a Balance Sheet is an abstract statement of the debit and credit balances remaining upon the Ledger after the elimination of all the Profit and Loss items. Such a statement, or schedule, may, and in fact does, of necessity often include items which cannot properly be classified as Liabilities or Assets. For example, the Reserve Account and the undivided balance of the Profit and Loss Account will be found on the debit side of the statement; whilst on the credit side may be found the deficiency or loss (if any) for the period, or any expenditure which is unrepresented by any asset, and which is held in suspense, in order that it may be written off over a future period (*e. g.* Preliminary Expenses).* It will be self-evident to the student that in such cases, which are by no means uncommon, the designation "Liabilities" and "Assets" is quite inappropriate.

As has already been indicated, a statement, such as those prepared when a bankruptcy is impending, wherein the Assets are stated as nearly as possible at their "break-up" values, is termed a "Statement of Affairs," and differs widely from a Balance Sheet both in its object and in the manner of its preparation. The student has already been warned that he must not confound statements of this character with a Balance Sheet prepared from a set of books kept upon the Double Entry system.

In the preparation of a Balance Sheet it is always desirable that all Assets, the market value of which is liable to fluctuation, or which are realizable only with difficulty, or which have been acquired *for use*, as distinguished from those acquired for subsequent conversion into money, shall be stated separately and clearly; care should also be taken that the basis upon which the Balance Sheet value of such Assets is arrived at is plainly

* An investigation of the Balance Sheets of unsuccessful companies will furnish the student with illustrations of "Assets" of this type.

indicated. In the specimen Balance Sheet given on page 122, it will be noted that the "Stock on Hand" and "Freehold Premises" are stated as having been "valued at cost price," and that the amount of the depreciation written off the "Fixture and Fittings" is clearly shown; this wholesome practice should be extended to all Assets except in those cases in which the monetary value is practically certain, in order that the Balance Sheet may be freed, as far as possible, from any uncertainties as to the basis of the valuations placed upon the Assets scheduled therein.

The valuation of Assets prior to the preparation of a Balance Sheet frequently presents considerable practical difficulties; it is impossible to discuss so large a question at adequate length in this chapter, but two general rules may be laid down for the guidance of the student, viz.—

1. That Assets held for *the purpose of being subsequently converted into money* (*e.g.* Debtors, Bills Receivable and Stock of Goods on hand) should not be stated in the Balance Sheet at any amount which is in excess of their *probable realizable value*, and that, if the latter is below their book value, adequate depreciation must be provided. On the other hand, it may be stated, as a general rule, that it is unwise to write up (or "appreciate") Assets of this description in cases where their market value has temporarily risen above their book value.

   Assets falling under this class are frequently termed **Floating** or **Circulating Assets**. So far as they are available, Assets of this nature form the **Working Capital** of the business in which they are employed.

2. That in the case of Assets held *solely for use* (*e.g.* Plant and Machinery, Goodwill, Leases, Patent Rights, etc.), *fluctuations in current market values may be ignored*, and that, provided adequate depreciation is written off the asset in order to reduce it to its residual value at the end of its useful "life," it may be included in the Balance Sheet at its original cost less this necessary depreciation. The basis of valuation should invariably be stated, and, indeed, in the case of public Joint Stock Companies owning Assets of this description such a statement has recently become compulsory.

The generic name of Assets of the above class is **Fixed Assets.** The term is not altogether a happy one, as Fixed Assets of some classes are subject to wear and tear. When used in conjunction with Assets, however, the adjective is meant to imply that the Assets so designated are held for the purpose of carrying on the business and earning income, and not for sale purposes. In cases where Fixed Assets decrease in value owing to wear and tear, or other cause, they are also referred to as **Wasting Assets.**

In the strict sense, as explained above, such capital is not of course really "Fixed," composed as it is, for the most part, of Assets subject to wear and tear and other depreciating factors. The legal decisions given in several well-known cases * have apparently relieved Joint Stock Companies from the necessity of providing for the wastage of certain "Fixed" Assets; it will be needless to point out, however, that, from a commercial point of view, a financial policy based upon these lines would be generally condemned as unsound.

Finally, the student must be cautioned against the error, not uncommon among examinees, of heading a Balance Sheet as, *e.g.*, "*for the year ending December* 31*st*, 1909." A Balance Sheet is a schedule of Ledger balances *as on a certain date*, in contrast to the Profit and Loss Account, which is a statement containing *the transactions for the year* or other period which it covers.

EXERCISES.

10A.

1. Explain the nature of a Balance Sheet. In what respects does it (*a*) resemble, and (*b*) differ from, a Trial Balance?

2. Differentiate between a "Balance Sheet" and a "Statement of Affairs."

3. Discuss the order in which the Assets should appear in a Balance Sheet, giving reasons for the method you prefer.

4. Range, in the order of their realizability, the following assets:

---

* *In re Dovey and Others* v. *Cory.* Certain comments were made by the Lord Chancellor in this case which seemed to suggest that these decisions might be open to challenge under other circumstances.

Cash, Freehold Land, Book Debts, Consols, Plant, Balance on Deposit Account with Bankers, Patent Rights, Stock on hand, Work in Progress, Preliminary Expenses, Goodwill.

5. Is the following statement correct? If not, discuss the questions involved: "No asset should be included in a Balance Sheet which is not capable of conversion into money, and no asset should be included at any value above that which it would fetch if immediately sold."

6. Explain the nature of, and the difference between, "Floating" and "Fixed" Assets.

7. What is "Working Capital"?

8. Upon what basis should "wasting assets" be valued for inclusion in a Balance Sheet? Illustrate your answer by dealing with the case of a Printing Machine costing £50 with a life of five years, being worth at the end of that time £5 as scrap-iron. The charges for repairs for the five years are as under: First year, £1; second year, £3; third year, £5; fourth year, £5; fifth year, £6 10*s*.

10B.

From the following particulars prepare the Balance Sheet of Charles Wilkinson, as on December 31, 1908, showing his capital at that date, and ranging the items on either side in the order of their realizability, or as they become payable.

	£	*s.*	*d.*
Stock of Goods on hand, December 31, 1908	11,090	16	5
Sundry Debtors	1,078	13	0
Freehold Premises (valued at cost)	3,000	0	0
Bills Payable	5,075	10	0
Furniture and Fixtures, at cost, less depreciation at 10 per cent. per annum	615	17	9
Sundry Creditors on Open Accounts	1,204	7	6
Creditor for Loan for working capital, H. Henry (repayable January 1, 1911)	13,000	0	0
Bank Overdraft, London and Western Bank, Ltd., Cardiff	18	17	6
Cash in Hand	32	17	9
Goodwill (at cost)	2,000	0	0
Stock of Stationery in Hand	15	4	9
Bills Receivable in Hand	1,765	0	0
Balance with the Union Banking Co., Ltd., London—On Current Account	189	15	6
On Deposit Account (at 7 days)	1,000	0	0
Sundry Creditors for expenses due but not paid	37	16	5
Consols, £1,000 at 83	830	0	0

10C.

From the following Trial Balance prepare the Trading Account and the Profit and Loss Accounts for the year ended December 31, 1903, and a Balance Sheet as on that day, incorporating therein the adjustments set forth in the footnote.

O. Jones.

Trial Balance as on December 31, 1908.

	£	s.	d.	£	s.	d.
Bills Payable				1,500	0	0
Carriage on Purchases	462	15	1			
Salaries	255	0	0			
Travelling Expenses	14	6	2			
Rent, Rates and Taxes	38	9	5			
Advertising	463	16	2			
Stock (January 1, 1908)	2,095	10	0			
Purchases	8,962	5	0			
Returns Inwards	364	9	8			
Returns Outwards				862	15	9
Leasehold Land and Buildings	1,000	0	0			
Furniture and Fixtures	240	0	0			
Patent Rights	310	0	0			
Sales				11,046	3	9
Bills Receivable	750	0	0			
Sundry Trade Creditors on Open Accounts				6,049	12	4
Sundry Trade Debtors on Open Accounts	7,392	16	5			
Machinery and Plant	105	10	0			
Carriage and Packing Expenses (Sales)	34	6	0			
Electric Light	12	4	10			
Telephone Subscriptions	24	5	0			
Discounts received				62	9	5
Discounts allowed	179	4	6			
North-West Banking Company, Current Account	251	4	4			
North-West Banking Company, Deposit Account	500	0	0			
Petty Cash, Balance in Hand	10	0	0			
Office Cash, Balance in Hand	38	9	4			
Fire Insurance Premiums	16	9	4			
Capital Account (O. Jones)				4,000	0	0
	£23,521	1	3	£23,521	1	3

Notes.—

	£	s.	d.
(*a*) The value of the Stock on hand, December 31, 1908, was	2,879	16	10
(*b*) Reserve 5 per cent. on the Sundry Debtors for Bad and Doubtful Debts.			
(*c*) Write off the Patent Rights	50	0	0
(*d*) Write off from the "Leasehold Premises Account" one year's depreciation on £1,000 at 5 per cent. p.a.			
(*e*) Carry forward the unexpired portion of "Fire Insurance Premiums (£16 9*s.* 4*d.*)" paid in advance, viz.	5	10	6
(*f*) Write 10 per cent. depreciation off the Machinery and Plant Account.			

10D.

The Steel Co., Ltd., began business on January 1st, 1906, with a Capital of £40,000, in 8,000 shares of £5 each, £1 to be paid on allotment, £1 on March 1st, and £1 on June 1st. Freehold Land, value £2,500, was bought and Buildings erected at a cost of £11,250. There was also purchased Plant, £3,750; Office Furniture, £175; and Preliminary Expenses amounted to £375. The works were finished on June 30th, and all liabilities thereon were paid at that date. The following were outstanding as arrears, viz.—On Allotment, £175; on first call, £280; and on second call, £345. Cash in Bank amounted to £5,150. Make the necessary entries for the above, and prepare a Balance Sheet as at June 30th. On December 31st Stock amounted to £7,800. From the following Trial Balance prepare Trading and Profit and Loss Accounts and Balance Sheet, after depreciating Freehold Buildings 1½ per cent. per annum, Plant 10 per cent. per annum, Furniture 7½ per cent. per annum, and Preliminary Expenses one-sixth.

	£	s.	d.	£	s.	d.
Freehold Land	2,500	0	0			
Freehold Buildings	11,250	0	0			
Plant	3,750	0	0			
Office Furniture	175	0	0			
Wages	4,000	0	0			
Preliminary Expenses	375	0	0			
Calls in arrear, viz.—Allotment	130	0	0			
First call	100	0	0			
Second call	120	0	0			
Purchases	12,375	0	0			
Salaries	2,200	0	0			
Directors' and Auditors' Fees	475	0	0			
Stationery	120	0	0			
Office Expenses	180	0	0			
Rates, etc.	60	0	0			
Sundry Debtors	2,940	0	0			
Bank	3,125	0	0			
Capital				24,000	0	0
Sales				17,500	0	0
Creditors				2,375	0	0
	£43,875	0	0	£43,875	0	0

Answers.—

10B. Capital, £2,281 13*s*. 9*d*.; Balance Sheet Totals, £21,618 5*s*. 2*d*.

10C. Gross Profit, £2,903 16*s*. 7*d*.; Net Profit, £1,453 11*s*. 3*d*.; Balance Sheet Totals, £13,003 3*s*. 7*d*.

10D. Balance Sheet Totals—
June 30th, £23,200 0*s*. 0*d*.
Dec. 31st, £31,574 1*s*. 3*d*.
Gross Profit, Dec. 31st, £8,925 0*s*. 0*d*.
Net Profit, Dec. 31st, £5,549 1*s*. 3*d*.

CHAPTER XI

A MERCHANT'S ACCOUNTS

In order to practically illustrate the working of the books already described in the preceding Chapters, and for the purpose of further explaining their combined use as a complete system, the subjoined example has been worked out in detail in the exact manner in which the items would appear in an actual set of books.

The transactions upon which the illustration is based are assumed to be those of J. Harris, a merchant dealing in two classes of goods, viz. Coffee and Tea. In order that the transactions in the two types of goods dealt in may be kept apart from each other, and in order that the gross profit on either class of merchandise may be separately ascertained in the Trading Account, the principle of analysis columns has been made use of in the "Sales," "Purchases" and "Returns" Books, as well as in the Stock and Trading Accounts in the Ledger. The dealings in merchandise, and certain of the other transactions given in the Example, are less numerous than would be the case in an ordinary mercantile business, but they have been so curtailed in order to avoid the unnecessary repetition of entries of a precisely similar character, *e. g.* the illustration of how to record a single sale or return is deemed to be sufficient to indicate to the student how all sales and returns, of a precisely similar character, should be passed through the books.

The books illustrated are as under, and the initial letters, appended to the names of the various books of original entry, are used, in lieu of folios, in the Ledger in order to indicate the particular book in which the original entry is to be found.

CASH BOOKS	Cash Book (with columns for "Bank," "Office Cash," and "Discount")	C.
	Petty Cash Book	P. C.

JOURNALS	Journal (Proper)	J.
	Purchases Book (analyzed form)	P.
	Sales Book (analyzed form)	S.
	Returns Inwards Book (analyzed form)	R. I.
	Returns Outwards Book (analyzed form)	R. O.
	Bills Payable Book	B. P.
	Bills Receivable Book	B. R.

LEDGER
Ledger containing—
(*a*) Analyzed accounts for Stock, Sales, Purchases, Returns Inwards, Returns Outwards, and Trading Account, to correspond with the classification appearing in the relative books of original entry.
(*b*) Other Ledger accounts in the ordinary simple form.

A **Trial Balance** is appended, and also a **Balance Sheet** showing the financial position at the end of the Trading period.

The Example is as under—

J. Harris commenced business on March 1, 1909, with the following Assets and Liabilities—

	£	s.	d.
Assets.			
Cash at the London & Eastern Bank, Ltd.	2,049	16	6
Stock of Goods on hand—			
Coffee: 1,626 bags valued at 50*s.* each	4,065	0	0
Tea: 120 chests valued at 40*s.* each	240	0	0
Lease of Warehouse and Land appertaining thereto having 15 years to run, valued at	1,500	0	0
Debtor: Francis & Co.	65	10	0
Furniture and Fixtures, valued at	120	0	0
Liabilities.			
Wynaad Coffee Co., Ltd.	2,050	16	5

His transactions for the month of March were as follows—

		£	s.	d.
Mar. 1	Drew from the Bank—			
	1. For Office Cash	50	0	0
	2. For Petty Cash	20	0	0
,, 3	Bought from the Produce Importing Co., Ltd., on credit—			
	200 bags of Wynaad Coffee at 50*s.* per bag	500	0	0
	100 chests of Silhana Tea at 46*s.* per chest	230	0	0
,, 6	Sold to the Northern Stores, Ltd., on credit—			
	500 bags of coffee, medium, at 56*s.* per bag, less 2 per cent. Trade Discount	1,372	0	0
	200 chests of tea at 50*s.* per chest, net	500	0	0
,, 9	Paid from Petty Cash—			
	For Envelopes and Letter-paper	1	4	0
	For Brass Door-plates (debit Furniture and Fixtures Account)	8	8	6
	For stamps	0	15	0
,, 10	Accepted the Produce Importing Co.'s draft due March 30, making the same payable by Bankers (London & Eastern Bank, Ltd.)	400	0	0
	Paid them by cheque	315	0	0
	Being allowed discount thereon	15	0	0

		£	s.	d
Mar. 11	Drew upon the Northern Stores, Ltd., at 3 months' sight, which draft was duly accepted.............	1,000	0	0
,, 12	Sold to Francis & Co. on credit—			
	100 bags of coffee at 60s., less 2½ per cent. Trade Discount..	292	10	0
,, 12	Received from the Northern Stores, Ltd., cheque for	850	0	0
	And paid the same to the Bank.			
	Allowed the Northern Stores, Ltd. (discount)......	22	0	0
,, 13	Paid, from Office Cash, salaries and wages to date....	12	10	0
,, 15	Paid by cheque to the Wynaad Coffee Co., Ltd.........	1,000	0	0
	Being allowed discount by them.......................	10	0	0
,, 16	Paid from Office Cash for electric light fittings........	5	7	9
,, 17	Sold for cash (placed in Office Cash)—			
	3 bags of coffee at 50s..	7	10	0
	10 chests of tea at 60s..	30	0	0
,, 19	Sold on credit to the Northern Stores, Ltd.—			
	500 bags of coffee at 58s. per bag, net..................	1,450	0	0
	5 chests of tea at 62s. per chest, net....................	15	10	0
,, 19	The Northern Stores, Ltd., returned as unsuitable—			
	5 chests of tea sold them (allowed them therefor full invoice price)...	15	10	0
	10 bags of coffee sold them (allowed them therefor full invoice price)...	29	0	0
,, 20	Bought from the Wynaad Coffee Co., Ltd., on credit—			
	500 bags of coffee at 46s. per bag, less 5 per cent. Trade Discount..	1,092	10	0
,, 20	Paid from Petty Cash—			
	Housekeeper and cleaning to date.......................	2	5	0
	Fires to date...	0	8	6
	Postages and Telegrams to date........................	0	9	6
	Fire Insurance premium (in advance) for 1 year from March 1 (debit Insurance Account)..... ...	1	10	0
,, 20	Received from the Northern Stores, Ltd., cheque on account..	1,000	0	0
	Allowed them discount thereon..........................	10	0	0
,, 20	Returned to the Wynaad Coffee Co., Ltd.—			
	100 bags of the coffee bought from them on March 20, the same being found to be "not up to sample." Received a credit note, for returns, from them for full price, *i.e.* 100 bags at 46s. per bag, less 5 per cent. Trade Discount........	218	10	0
,, 22	Received from Francis & Co. cheque for £65 10s., and banked the same..	65	10	0
,, 22	Bought at auction from R. Levy freehold premises, 459c Minories, for	3,000	0	0
	Of which paid by cheque..............................	1,000	0	0
	The balance (£2,000) to be paid upon the formal transfer of the property.			
,, 22	The Bank notify that Francis & Co.'s cheque has been returned to them dishonoured............ ...	65	10	0
,, 23	Discounted with the Bank the Northern Stores Co.'s acceptance for	1,000	0	0
	Being charged discount therefor	8	15	5
,, 23	Francis & Co. offer to discharge the amount of their dishonoured cheque as follows—			
	1. By their acceptance at 30 days' sight, endorsed by Brown & Co., for......................................	50	0	0
	2. By cheque for..	15	10	0
	Accepted their offer and received cheque and acceptance, paid the former to Bank, through whom it was duly honoured.			
,, 24	Borrowed from the Property & Mortgage Trust, Ltd., at 4 per cent. per annum, upon the security of 459c Minories. Received their cheque (paid same to Bank)...	1,500	0	0
	Simultaneously with receipt of the foregoing cheque J. Harris received from Mr. R. Levy's solicitors the deeds relating to 459c Minories in exchange for his cheque for £2,000, balance of purchase money, and these deeds, together with the Mortgage Deed, were duly handed to the Property & Mortgage Trust, Ltd..	2,000	0	0

		£	s.	d.
Mar. 24	Paid R. Levy, by cheque, value of Fixtures at 459c Minories (Furniture and Fixtures Account).....	10	5	9
„ 25	Francis & Co. this day suspended payment.			
„ 25	Sold to Wrighson Bros. on credit—			
	50 bags of coffee at 52*s.* per bag......................	130	0	0
„ 26	Paid by cheque to the Forwarding Agency, Ltd., charges for carriage on sundry bags of coffee and chests of tea dispatched through them to the purchasers thereof..........	26	18	4
„ 27	Received from Wrightson Bros. their acceptance at 3 months' date for	125	10	0
	Allowed them discount thereon........................	4	10	0
„ 29	Drew from Bank for Office Cash............................	50	0	0
„ 29	Drew from Bank for Petty Cash, in order to increase the Cashier's agreed balance to £30	10	0	0
„ 30	Paid, from Office Cash, salaries and wages to date.....	13	5	0
„ 30	Bills Payable held by Produce Importing Co., Ltd., met to-day through the Bank........................	400	0	0
„ 31	Paid, from Petty Cash—			
	Housekeeper and cleaning to date......................	3	9	0
	Fires to date...	0	10	9
	Postages and Telegrams to date........................	0	13	6
	Travelling Expenses to date	4	8	9
	3 bottles of Ink	0	8	6
	Repairs to Copying Press................................	0	3	9
„ 31	Sold for cash (placed in Office Cash), 10 bags of coffee at 62*s.* net..	31	0	0
„ 31	Drew cheque on bankers to restore Petty Cashier's balance to £30..	19	5	6
	Note.—The following provisions are to be made at the end of the month—			
	Stocks on hand are to be valued as under—			
	1,073 bags of coffee at 55*s.* per bag................	2,950	15	0
	10 chests of tea at 60*s.* per chest........	30	0	0
	2. One month's depreciation is to be written off Leasehold Land and Buildings at the rate of £100 per annum..	8	6	8
	3. Eleven months' fire insurance premium paid in advance is to be carried forward	1	7	6
	4. A reserve for the loss on the debt due from Francis & Co. and on the bill held bearing their acceptance is to be made, of................	85	0	0
	5. Provision is to be made for sundry expenses due but unpaid at the end of the month	52	10	0
	6. Fixtures and Fittings are to be depreciated at the rate of 12 per cent. per annum, nothing being written off the Fixtures and Fittings bought during the month, *i.e.* 1 month's depreciation is to be allowed for at 12 per cent. per annum on £120.......	1	4	0

Unless otherwise stated, all moneys are to be taken as having been paid into the Bank as and when received, and all payments to have been made by cheque.

Taking the details and transactions given in the above exercise seriatim, their method of treatment is as under—

The first matter to be dealt with is the opening of the books, as on March 1st, 1909, by means of a Journal entry incorporating the Assets and Liabilities at the commencement of the trading period, and showing the initial Capital with which J. Harris commenced business.

As indicated in Chapter VII, the Assets are ranged upon the *debit* side in the Journal entry, while the

Liabilities are set out on the *credit* side; upon the credit side also is inserted the figure necessary to make the two sides of the Journal entry agree. Such adjusting figure represents the *Initial Capital* embarked in the undertaking.

The opening Journal entry thus assumes the following form—

JOURNAL

1909.		Dr. £	Dr. s.	Dr. d.	Cr. £	Cr. s.	Cr. d.
Mar. 1	Sundries— Dr. To Sundries, viz.—						
	Cash	2,049	16	6			
	Stock (Coffee on hand)	4,065	0	0			
	,, (Tea on hand)	240	0	0			
	Lease of Warehouse and Land	1,500	0	0			
	Francis & Co.	65	10	0			
	Furniture and Fixtures	120	0	0			
	Wynaad Coffee Co.				2,050	16	5
	Capital Account (J. Harris)				5,989	10	1
	Being the Assets, Liabilities, and Capital at the commencement of business.	£8,040	6	6	£8,040	6	6

The transactions for the month would then be dealt with in the books of J. Harris as under—

March 1. *Drew from Bank for Office Cash*, £50.

The £50 is entered in the Cash Book on the credit side in the "Bank" Column, in order to record the withdrawal, and on the debit side in the "Office Cash" column, to record the receipt by the Office Cashier of the like sum, the Bank having paid that amount, and the Cashier having received it. Office Cash is thus *debited* with the £50 received by it, and the Bank is *credited* with the £50 which it has paid.

March 1. *Drew from Bank for Petty Cash*, £20.

The £20 is entered in the "Bank" column of the Cash Book upon the Credit side, and a debit entry is made in the Petty Cash Book recording the receipt of £20 by the Petty Cashier. The former entry is made by the Chief Cashier, or other official entrusted with the keeping of the Cash Book, and the latter entry is made by the Petty Cashier, who, wherever possible, should be a different person. The Petty Cashier is thus *debited* with the £20 because he has received that sum, and the Bank is *credited* with the £20 which it has paid.

March 3. *Bought from the Produce Importing Company, Ltd., on Credit—*

	£	s.	d.
200 *bags Wynaad Coffee at* 50*s. per bag*	500	0	0
100 *chests Silhana Tea at* 46*s. per chest*	230	0	0
	£730	0	0

Immediately upon receipt of the Invoice from the Produce Importing Company, Ltd., the clerk in charge of the Purchases Book copies into it the details given above; the amount payable for the Coffee bought (£500) is entered in the "Coffee" anaylsis column of the Purchases Book, the amount payable for the Tea (£230) is entered in the "Tea" analysis column, and the total of the Invoice (£730) is extended into the total column in the Purchases Book. The posting of these items to the credit of the Produce Importing Company, Ltd., in their Ledger account, is subsequently effected by the Ledger-keeper from the Purchases Book, and the folio of the Ledger account in which the items appear is entered by him in the folio column of the Purchases Book, thus indicating to himself, and to all other persons concerned, that the necessary Ledger posting has been duly effected. The Purchases Book folio ("P" in this case) is entered in the folio column in the Ledger account.

The "Purchases" Account is thus *debited* with the £730 worth of goods received into the business, and the Produce Importing Company is *credited* with the £730 worth of goods which they have sold and delivered.

March 6. *Sold the Northern Stores, Ltd., on credit—*

	£	s.	d.
500 *bags coffee, medium, at* 56*s. per bag, less* 2 *per cent. Trade Discount* .	1,372	0	0
200 *chests Tea at* 50*s. per chest net* .	500	0	0
	£1,872	0	0

The fact that this sale has taken place, and the details of which it is composed, appear in the "Invoice Press Copy Book" kept by J. Harris, *i. e.* in the Press Copy Book in which all the invoices rendered by him to customers are copied prior to being sent out.

From this Press Copy Book the clerk in charge of the Sales Book records the sale in his Sales Book, entering the selling price of the Coffee sold in the "Coffee" analysis column the price of Tea sold in the "Tea"

analysis column, and extending the total in the "Total" column in manner similar to that indicated in the case of the purchase referred to in the preceding paragraph.

The posting of the item to the debit of the Ledger account of the Northern Stores, Ltd., is effected by the Ledger-keeper in the ordinary way as described above.

The Northern Stores, Ltd., are thus *debited* with the £1,872 worth of goods received by them, and the "Sales" Account is *credited* with the £1,872 worth of goods delivered.

	£	s.	d.
March 9. *Paid from Petty Cash—*			
For Envelopes and Letter-paper . . .	1	4	9
For Brass Door-plates (debit "Furniture and Fixtures" Account)	3	8	6
For Stamps	0	15	0

As and when the above payments are effected by the Petty Cashier, he enters them in his Petty Cash Book on the credit side in the total column. Such of the items as relate merely to expenses coming appropriately under any of the headings set out in the analysis columns of the Petty Cash Book are forthwith "extended" (*i. e.* entered more to the right-hand side of the book) in their respective analysis columns. Into this category fall the payments for Envelopes and Letter-paper (£1 4*s.* 9*d.*), and for Stamps (15*s.*); these items are consequently immediately extended respectively in the "Stationery" and "Postages and Telegrams" columns.

The remaining payment, viz. that for "Brass Door-plates (£3 8*s.* 6*d.*)," requires to be debited to the "real" Ledger account headed "Furniture and Fixtures," and this sum is consequently extended into the "Ledger" column upon the extreme right-hand side of the Petty Cash Book, with the name of the Ledger account (viz. "Furniture and Fixtures") appended. From the item, thus extended, a debit entry is subsequently made by the Ledger-keeper in the "Furniture and Fixtures" account in his Ledger, and the necessary double entry is thus completed. The Ledger folio is inserted in the folio column in the Petty Cash Book in the ordinary way, in order to indicate that the item has been duly posted.

The various expense accounts, "Stationery" and "Postages," are thus *debited* with the sums spent in these directions, and the "Furniture and Fixtures" Account is debited with the cost of the brass door-plates

acquired, the Petty Cash being *credited* with the money spent.

	£	s.	d.
March 10. *Accepted the Produce Importing Company's Draft—*			
Due March 30 *for*	400	0	0
Paid them by Cheque	315	0	0
Being allowed Discount	15	0	0
	£730	0	0

These transactions, in reality three in number, must first be mentally classified according to the particular book in which the original entry is to be effected.

The "acceptance" for £400 is a "Bills Payable" transaction, and therefore requires to be entered in that book; the other two transactions, together amounting to a cash payment coupled with a discount allowance, must obviously be recorded in the Cash Book.

The Bill Payable for £400 is consequently entered in the Bills Payable Book, the various details relating to it being recorded in the appropriate columns (*e. g.* "for whose account accepted," "where payable," etc.), and the amount is posted therefrom to the debit of the firm "for whose account accepted," *i. e.* the Produce Importing Company.

The amount of the cheque drawn (£315) in favour of the Produce Importing Company, Ltd., is entered (from the cheque counterfoil appearing in J. Harris's cheque-book) in the Cash Book upon the credit side in the "Bank" column; the discount allowance received (£15) is entered upon the same line in the Cash Book, again upon the credit side, but in the "Discount" column. The total of the two items (£330), thus entered upon the credit side in the Cash Book, is posted to the debit of the Ledger account of the Produce Importing Company, Ltd., by the Ledger-keeper, the Ledger folio being entered in the Cash Book against the items, and the Cash Book folio ("C" in this case) being entered in the folio column in the Ledger.

The Produce Importing Company is thus *debited* with items amounting to £730, representing cash and an acceptance given them and discount allowed by them, while "Bills Payable" are *credited* with £400, representing the liability incurred on the Bill Payable; "Cash" is credited with £315, representing the cash parted with,

and "Discount Account" (*vid* the Cash Book) is *credited* with £15 for a "profit" received.

March 11. *Drew upon the Northern Stores, Ltd., at* 3 *months' sight for* £1,000, *which draft was duly accepted.*

This bill, received by J. Harris, must be recorded in the "Bills Receivable Book" in a manner similar to, although with the reverse effect of, the Bill Payable referred to in the preceding entry.

Consequently the bill, with full particulars, is first entered in the Bills Receivable Book, and is posted from thence to the credit of the person "from whom received," *i.e.* the Northern Stores, Ltd., in the Ledger account kept for them by J. Harris's Ledger-keeper. The requisite posting is effected by the latter in the ordinary way.

"Bills Receivable" are thus *debited* with £1,000, representing the amount of the bill received, and the Northern Stores, Ltd., are *credited* with the value of the bill (£1,000) which they have given to J. Harris.

March 12. *Sold Francis & Co.* 100 *bags coffee at* 60*s.*, *less* 2½ *per cent. trade discount*, £292 10*s.* 0*d.*

This transaction is passed through the Sales Book, and is posted subsequently to the debit of Francis & Co.'s Ledger account by the methods explained as applicable in the case of the sales described under date March 6.

It is to be noted that in the case of this sale, as was also the case with reference to that made on March 6, the trade discount has been deducted before any attempt is made to pass the transaction through the books.

Francis & Co. are thus *debited* with £292 10*s.* for the value of the goods sold to them, the "Sales Account" being *credited* with £292 10*s.* for the goods parted with.

March 12. *Received from the Northern Stores, Ltd., cheque for* £850; *paid some to bank; allowed them discount,* £22.

The £850 is entered in the debit "Bank" column in the Cash Book, while the discount allowance (£22) is entered at the same time in the adjacent "Discount" column; the total, £872, is then posted to the credit of the Northern Stores, Ltd., in the Ledger account kept for them. The Bank is thus *debited* with £850 because

it has received a cheque for that sum, "Discount" is (*viâ* the Cash Book) *debited* with £22 because a "loss" of that amount has been sustained under this heading, and the Northern Stores, Ltd., are *credited* with the £850 cheque with which they have parted, and with the £22 discount allowed to them.

March 13. *Paid from Office Cash, Salaries and Wages to date,* £12 10*s*.

To record this item it is necessary to credit the "Office Cash" column on the credit side of the Cash Book with the £12 10*s*. paid away; the requisite double entry being completed by the posting of £12 10*s*. to the debit of the Wages and Salaries Account in the Ledger.

"Salaries and Wages" are thus *debited* with £12 10*s*. because this expense has been sustained, and "Office Cash" is *credited* with £12 10*s*. because the Cashier has parted with the money.

March 15. *Paid by cheque to the Wynaad Coffee Company* £1,000
Being allowed discount £10

The £1,000 is entered on the credit side of the Cash Book in the "Bank" column, thus indicating the drawing of a cheque of that value; the discount is placed in the "Discount" column on the same side of the Cash Book, and the total (£1,010) is posted to the debit of the Wynaad Coffee Company in the Ledger.

The Wynaad Coffee Company, Ltd., is thus *debited* with £1,010 "cash and discount" because they have received the one and allowed the other. The Bank is *credited* with £1,000 because it has parted with this sum, and "Discount" is *credited* with £10 because this "profit" has been received.

March 16. *Paid from Office Cash for Electric Light Fittings,* £5 7*s*. 9*d*.

The "Office Cash" column on the credit side of the Cash Book is credited with £5 7*s*. 9*d*., representing the disbursement of that sum from the Office Cash, and the "Furniture and Fixtures" Ledger Account is debited with the same sum. "Furniture and Fittings" are thus *debited* with £5 7*s*. 9*d*., representing assets acquired, and "Office Cash" is *credited* with £5 7*s*. 9*d*., representing money paid.

March 17. *Sold for cash (placed in Office Cash)*—

3 *bags coffee at* 50*s*.	£7 10 0
10 *chests tea at* 60*s*.	£30 0 0

These sales are not sales "upon credit," and, consequently, do not need to be recorded through the Sales Book, which book, it will be remembered, is restricted to the record of sales "upon credit."

It will be remembered that a "Sales" Account is opened in the Ledger, and that to this account is posted the total of the Sales Book at the end of the period, and it is in this account that, in the present example, the cash sales effected have been credited. In some businesses a separate Ledger account is kept for "Cash Sales," the total of this class of sale being merged with the total of the "Credit Sales" at the end of the trading period; or, as an alternative, a separate column in the Cash Book for "Cash Sales" may be employed, in which the daily total of the Cash Sales is entered, the total of the column being posted, in due course, each month, to a "Cash Sales Account" in the Ledger. In the present example, however, the Cash Sales, not being numerous, have been posted direct from the Cash Book to the "Sales" Account in the Ledger.

The entry consequently is—

The "Office Cash" column on the debit side of the Cash Book is *debited* with the two items (£37 10*s*.), representing the receipt by the Office Cashier of the proceeds of the Cash Sales, and "Sales" Account in the Ledger is *credited* with the like sum, representing goods parted with.

March 19. *Sold on credit to the Northern Stores, Ltd.*—

	£	s.	d.
500 *bags coffee at* 58*s*. *per bag net* .	1,450	0	0
5 *chests tea at* 62*s*. *per chest net* .	15	10	0
	£1,465	10	0

These sales are passed through the Sales Day Book, the items being entered in the proper analysis columns upon lines similar to the sale effected on March 6, to the same purchaser. The Northern Stores, Ltd., are thus *debited* with £1,465 10*s*. for the value of the goods received by them, and "Sales" Account is *credited* with £1,465 10*s*. for the goods parted with.

March 19. *The Northern Stores, Ltd., returned as unsuitable—*

5 *chests tea sold them*	£15	10	0
10 *bags coffee*	£29	0	0

Allowed them full invoice price therefor. (*£44 10s. 0d. in all*).

"Returns Inwards" of this nature are, for book-keeping purposes, and as has already been explained (Chapter VIII), dealt with in the books of the original seller as re-purchases of goods previously sold, and must be recorded in the "Returns Inwards" Book upon lines similar to those which would be adopted if the transaction represented an original purchase of goods from the Northern Stores, Ltd., instead of being a re-purchase of goods from them.

The £15 10*s*. "allowed" for the Tea returned is thus entered in the Returns Inwards Book, with appropriate details, the amount being placed in the "Tea" analysis column, while the £29 allowed for the Coffee returned is similarly entered in the "Coffee" column of the same book, and the total (£44 10*s*.) is extended into the "total" column. From this book the allowances for Returns Inwards are posted to the credit of the Northern Stores, Ltd., in their Ledger account. "Returns Inwards" are thus *debited* with £44 10*s*. for the value of the goods received back, and the persons from whom they were received, viz. the Northern Stores, Ltd., are *credited* with £44 10*s*. for goods with which they have parted.

March 20. *Bought from the Wynaad Coffee Company, Ltd., on credit,* 500 *bags coffee at* 46*s. per bag, less* 5 *per cent. trade discount,* £1,092 10*s*.

This purchase is entered in the Purchases Book, and is posted to the credit of the Wynaad Coffee Company, Ltd., in the ordinary way. "Purchases" Account is *debited* with £1,092 10*s*., being the value of the goods received, and the Wynaad Coffee Company, Ltd., is *credited* with £1,092 10*s*. for goods with which it has parted.

March 20. *Paid from Petty Cash—*	£	*s.*	*d.*
Housekeeper and cleaning to date . .	2	5	0
Fires to date	0	8	6
Postages and Telegrams to date . .	0	9	6
Fire Insurance Premium in advance for one year from March 1 (Debit Insurance Account)	1	10	0
	£4	13	0

These payments are entered, as and when made, upon the credit side of the Petty Cash Book, in the Total column.

Such of these items (in point of fact the first three payments) as fall under any of the "expense" headings inserted in the analyses columns following the credit "Total" column are extended in those analyses columns under their appropriate headings. Hence the £2 5*s.* and the 8*s.* 6*d.* are inserted under "Housekeeper, Fires and Cleaning," while the 9*s.* 6*d.* is entered under "Postages and Telegrams."

The remaining item requires to be debited to a separate account in the trader's Ledger (*i.e.* "Insurance Account"), and it is consequently extended into the extreme right-hand column (the "Ledger Account" column), with the name of its correct Ledger account appended, and the posting of the item to the debit of such Ledger account is subsequently effected from the Petty Cash Book. The respective "expense" accounts are thus *debited* with the sums spent in the various directions indicated. "Insurance Account" is *debited* with £1 10*s.* for the value of the protection acquired against fire, and "Petty Cash" is *credited* with £4 13*s.* in all because it has paid the money.

March 20. *Received from the Northern Stores, Ltd., cheque on account* £1,000
Allowed them discount £10

The debit "Bank" column in the Cash Book is debited with £1,000, the debit "Discount" column with £10, and the total of the two items, £1,010, is posted to the credit of the Ledger account of the Northern Stores, Ltd.

The Bank is *debited* with £1,000 for the money received by it, "Discount" is *debited* with £10 for a "loss" sustained in this direction, while the Northern Stores, Ltd., are *credited* with £1,010 for the cash received from them and the discount allowed to them.

March 20. *Returned to the Wynaad Coffee Company, Ltd.,* 100 *bags coffee, invoiced at* 46*s. per bag, less* 5 *per cent. trade discount,* £218 10*s.*

This "Return Outwards" is recorded through the Returns Outwards" Book, from which a posting for £218 10*s.* to the debit of the Ledger account of the Wynaad Coffee Company, Ltd., is made. The transaction is thus treated as a re-sale to the Wynaad Coffee Company, Ltd., of goods previously bought from it.

The Wynaad Coffee Company, Ltd., is thus *debited* with £218 10*s*. for the value of goods returned to them, "Returns Outwards" being *credited* with £218 10*s*. because goods to this amount have been parted with.

March 22. *Received from Francis & Co. cheque for* £65 10*s*., *and banked same.*

The "Bank" column in the Cash Book is *debited* with £65 10*s*. because it has received a cheque of that value, while Francis & Co. are *credited* with the amount of the cheque received from them.

March 22. *Bought at auction from R. Levy freehold premises,* 459c *Minories, for* £3,000, *for which paid by cheque* £1,000, *the balance to be paid on formal transfer of the property.*

This is in reality a twofold transaction, and must be recorded as such; the first transaction to be recorded is the purchase of the premises from R. Levy for £3,000, for which a Journal entry must be passed, viz. debiting "Freehold Premises" with £3,000, and crediting R. Levy with the like sum (£3,000).

"Freehold Premises" are *debited* with £3,000 because premises have been acquired of that value, and R. Levy is *credited* with £3,000 because he has parted with premises costing that amount.

The second transaction requiring to be entered is the payment of £1,000 to R. Levy in reduction of the amount owing to him. This item is entered in the ordinary way in the "Bank" column of the Cash Book, upon the credit side, and the necessary posting is effected to R. Levy's debit in the ordinary way.

R. Levy is *debited* with £1,000 because he has received a cheque for this sum, and the "Bank Account" is *credited* with £1,000 because it has parted with the like amount.

March 22. *The Bank notifies that Francis & Co.'s cheque for* £65 10*s*. *has been returned dishonoured.*

When this cheque was originally received it was, upon the assumption that it would be duly met, debited in the "Bank" column of the Cash Book, and credited in Francis & Co.'s Ledger account. Now, however, in view of the fact that it has been "dishonoured," it becomes necessary to reverse the original entries, and to place matters, as regards Francis & Co.'s Ledger account, in a position

similar to that which would exist if the cheque had never been received.

An entry is consequently made in the Cash Book on the credit side in the "Bank" column, to offset the debit record previously placed in this book on the other side; and, to complete the record, Francis & Co.'s Ledger account is debited with £65 10*s*. according to the ordinary rules of Ledger posting.

Note.—Many banks credit their customers with cheques immediately they are paid in, irrespective of whether such cheques have been collected or not, debiting their customers subsequently with any of them that are afterwards returned unpaid. The Bank Pass Book will therefore, in all probability, tally exactly with the Cash Book as regards the entries recording the return of cheques.

Francis & Co. are *debited* with £65 10*s*. because they have become J. Harris's debtors in respect of the dishonoured cheque for that sum, and the Bankers are *credited* with the same amount because, although previously shown as having received it, they have not in fact done so, and it therefore becomes necessary to reverse the original entry.

March 23. *Discounted with the Bank the Northern Stores Company's acceptance for* £1,000, *being charged discount,* £8 15*s*. 5*d*.

This again is an example of a combined transaction, which, for book-keeping purposes, must be regarded as two transactions.

The first transaction to be recorded is the parting, by J. Harris, with a bill for £1,000 to his Bankers, who are to be deemed (for book-keeping purposes) to have purchased it from him for its full face value; simultaneously, the Bankers charge J. Harris a discount of £8 15*s*. 5*d*., for which amount a separate credit entry is made in the "Bank" column of the Cash Book; and the combined effect of this £1,000 entry on the one side and the £8 15*s*. 5*d*. entry on the other is that £991 4*s*. 7*d*. (being the actual price obtained by J. Harris on sale of the £1,000 bill) is added to the "Bank" balance in the Cash Book.

The necessary entries are consequently as follows—

1. The "Bank Account" is *debited* with £1,000, because it has received the Bill of Exchange for that amount,

while the "Bills Receivable Account" is credited with the £1,000 bill which has been parted with.

2. "Bank Discount" is *debited* with £8 15*s*. 5*d*. for money "lost" in this direction, and the "Bank Account" is *credited* with the like sum because the Bankers have deducted this amount from the customer's balance which was in their hands.

March 23. *Francis & Co. offer to discharge the amount of their dishonoured cheque as follows—*

1. *By their acceptance at* 30 *days' sight for* £50 0 0
2. *By cheque for* £15 10 0

Accepted their offer, received acceptance and cheque (latter honoured).

The above entries must be treated as two separate transactions, and are then simple.

The acceptance received (£50) must be entered in the Bills Receivable Book in the ordinary way, and from thence must be posted to the credit of Francis & Co.'s Ledger account.

The cheque received must be debited in the "Bank" column of the Cash Book, and must be posted thence to the credit of Francis & Co.'s Ledger account. "Bills Receivable Account" is *debited* with £50, the amount of the bill received, and Francis & Co. are *credited* with the same sum because they are the persons from whom it has been received. The Bank is *debited* with £15 10*s*., because this amount has been received by it, and Francis & Co. are *credited* with £15 10*s*. because a cheque of that value has been received from them.

March 24. *Borrowed from the Property and Mortgage Trust, Ltd., at* 4 *per cent. per annum upon security of* 459c *Minories, received cheque and paid same to Bank,* £1,500.

Simultaneously with the receipt of the foregoing cheque, J. Harris received from Mr. R. Levy's solicitors deeds relating to 459c *Minories in exchange for his cheque for* £2,000, *balance of purchase money, and these deeds, together with Mortgage Deed, were handed to the Property and Mortgage Trust, Ltd.*

It will be seen that J. Harris has, simultaneously, (1) borrowed the money wherewith to complete his purchase of 459c Minories, (2) used that money to assist him in paying the further instalment due, and, as soon as the deeds

came into his possession, (3) pledged them with the persons lending him the money by way of security for their advance.

This method of financing a purchase of property is common in cases where the trader is not prepared to lock up a large portion of his business capital in more or less unproductive assets.

The entries necessary in order to record the transactions enumerated above simply resolve themselves into those arising out of the two sums of cash changing hands, viz. a debit in the Cash Book ("Bank" column) for the £1,500 borrowed from the Property and Mortgage Trust, Ltd., this being duly posted to the credit of the "Property and Mortgage Trust, Ltd., Loan on Mortgage Account." The other entry is a credit in the Cash Book ("Bank" column) for the £2,000 paid to R. Levy, the like sum being debited in due course to his account in the Ledger.

The Cash Book ("Bank" column) is thus *debited* with £1,500, because the Bank has received the money, and the Property and Mortgage Trust, Ltd., is *credited* with the same sum because they have parted with it.

The Cash Book ("Bank" column) is *credited* with £2,000 because the Bank has parted with this sum, and R. Levy is *debited* with the same amount because he has received it.

March 24. *Paid R. Levy, by cheque, value of fixtures at* 459C *Minories (debit Furniture and Fixtures Account)*, £10 5*s*. 9*d*.

When agreeing upon the terms for the sale of buildings it is customary for the purchaser to pay for such removable fixtures as he wishes to retain, a valuation being arrived at as between vendor and purchaser, or, alternatively, a price being fixed by a valuer appointed with the consent of both parties.

The entry necessary in order to record the transaction is a credit in the Cash Book ("Bank" column), coupled with a debit to the "Furniture and Fixtures" Account. "Furniture and Fixtures Account" is *debited* with £10 5*s*. 9*d*. because articles answering to this description and value have come into the business, and the Bank is *credited* with £10 5*s*. 9*d*. because that sum has been parted with by it.

March 25. *Francis & Co. this day suspended payment.*

"Suspension of payment" does not necessarily always

imply inability to ultimately pay all debts in full, although the implication is usually justified.

Even though a debtor be insolvent it does not necessarily follow that some portion of his debt will not be eventually recovered; consequently it would be incorrect, upon the happening of a suspension of payment, as in this case, to write off the whole of Francis & Co.'s debt as "bad." It is advisable, and indeed customary, to wait until further details as to the insolvency are forthcoming; and, in the meantime, to make no entry in the books beyond a memorandum in the Ledger of such facts as are to hand.

March 25. *Sold Wrightson Bros. on credit* 50 *bags coffee* at 52*s. per bag net,* £130.

This transaction is entered in the Sales Book, and is thence debited to Wrightson Bros. in the ordinary way.

Wrightson Bros. are *debited* with £130 because they have received goods to that amount, and "Sales" Account is *credited* with a like sum because goods of that value have been parted with.

March 26. *Paid by cheque to the Forwarding Agency, Ltd., charges for carriage of sundry bags of coffee and chests of tea despatched through them to the purchasers thereof,* £26 18*s.* 4*d.*

It is not necessary to go to the trouble of opening a Ledger account for the Forwarding Agency, Ltd., for an isolated item like the above. By means of a Journal entry, the "Carriage and Cartage" Account could have been debited while the Ledger account of the Forwarding Agency, Ltd., was credited, the cheque drawn being posted to the debit of the latter account.

But the simple, and more usual, way to record a transaction of this nature is to debit the amount of the cheque *direct* from the Cash Book to the "Carriage and Cartage Account" in the Ledger. The entry is consequently—

Credit the "Bank" column in the Cash Book with £26 18*s.* 4*d.*, because the Bank has parted with the money, and *debit* the "Carriage and Cartage Account" with £26 18*s.* 4*d.*, because that sum has been expended on carriage and cartage.

March 27. *Received from Wrightson Bros. their acceptance at three months' date for*	£125	10	0
Allowed them discount . . .	£4	10	0

If cash for the above amount had been received from Wrightson Bros., the discount allowed them could have been recorded, in company with the cash entry, through the usual medium of the Cash Book. There is, however, no column in the Bills Receivable Book in which to record the discounts allowed upon the payment of accounts "by acceptance," and the above transactions must consequently be recorded as separate matters.

The acceptance received from Wrightson Bros. must be entered in the Bills Receivable Book, and thence posted to their credit in the ordinary way.

"Bills Receivable Account" is thus *debited* with £125 10*s.* because a Bill Receivable for that sum has come in, and Wrightson Bros. are *credited* with £125 10*s.* because they have parted with a bill for that amount.

No other method exists of recording the discount allowed in the books except by means of an entry in the Journal proper. This transaction, like that of the purchase of premises from R. Levy, falls into the category of transactions for which no special book of original entry exists, and for the record of which the use of the Journal proper is consequently inevitable.

A Journal entry, debiting the "Discount" account, and crediting Wrightson Bros., is consequently made and posted to the respective Ledger accounts.

"Discounts" Account is thus *debited* with £4 10*s.* because "Discounts Account" may be said to have parted with or "allowed" that sum, and Wrightson Bros. are *credited* with £4 10*s.* because the discount allowance made to them corresponds in effect to a payment received from them.

March 29. *Drew from Bank for Office Cash,* £50.

For this transaction it is necessary to credit the "Bank" column on the credit side of the Cash Book, and to debit the "Cash" column on the debit side of the same book, as in the case of the withdrawal made on March 1.

"Office Cash" is *debited* with £50 because it has received the money, and the Bank Account is *credited* with £50 because it has parted with that sum.

March 29. *Drew* £10 *from Bank for Petty Cash, in order to increase the Cashier's agreed balance to* £30.

It will be remembered that, when employing the "Imprest" system of keeping Petty Cash, the Petty Cashier is, at the beginning of a given period, started

with an agreed round sum of cash in hand, and that, at the end of certain stated periods (*e.g.* monthly), the balance he has in hand is restored to its original figure by means of a cheque drawn on the firm's banking account for whatever sum he (the Petty Cashier) has expended during the preceding period.

In the case of J. Harris's cashier a balance of £20 was originally agreed as sufficient to cover the estimated expenditure of each month, but, for various reasons, it was subsequently decided to raise the limit to £30; a cheque for £10 was therefore drawn to place the Petty Cashier in the same position as if he had originally received £30 at the beginning of the month.

The necessary entry to record this further £10 corresponds exactly with that which was made at the commencement of the month, when £20 was drawn for Petty Cash purposes. The "Bank" column in the Cash Book is consequently credited with £10 and the debit side of the Petty Cash Book is debited with the same sum.

The Petty Cashier is *debited* with £10 because he has received the money, and the "Bank Account" is *credited* with a like sum because it has parted with the money.

March 30. *Paid, from Office Cash, Salaries and Wages to date*, £13 5*s*.

To record this transaction it is necessary to credit the Cash Book ("Cash" column) and to debit the "Salaries and Wages Account" in the Ledger. "Office Cash" is *credited* with £13 5*s*. because it has disbursed the money, and "Salaries and Wages Account" is *debited* with the same amount because it is in this direction that the money has been spent.

March 30. *Bill Payable, held by the Produce Importing Company, Ltd., met to-day through Bank*, £400.

Upon the above bill being presented to them J. Harris's bankers will, in the ordinary course, have paid the amount of it to the holders and, at the same time, have debited J. Harris with the £400 so disbursed.

The necessary entry in J. Harris's books is a credit in the "Bank" column in the Cash Book, which in due course is posted to the debit of the Bills Payable Account in the Ledger. "Bills Payable Account" is *debited* with £400 because the holder of the Bill Payable (who is included in the heading "Bills Payable") has received

the money, and the "Bank Account" is *credited* because it has parted with the money.

March 31. *Paid from Petty Cash—*	£	s.	d.
Housekeeper and Cleaning to date . .	3	9	0
Fires to date	0	10	9
Postages and Telegrams to date . . .	0	13	6
Travelling Expenses to date	4	3	9
Three bottles of Ink	0	3	6
Repairs to Copying Press	0	3	9

The foregoing payments are first entered as and when made in the "total" column on the credit side of the Petty Cash Book, and are then extended into their respective analysis columns, as in the case of the items of similar nature previously explained.

The £3 9*s*. and 10*s*. 9*d*. are extended into the column provided for "Housekeeper, Fires and Cleaning," the 13*s*. 6*d*. as "Postages and Telegrams," the £4 3*s*. 9*d*. as "Travelling Expenses," the 3*s*. 6*d*. as "Stationery," and the 3*s*. 9*d*. as "Repairs." There are no items amongst these payments which require separate posting to the debit of Ledger accounts, and consequently there is nothing to extend in the "Ledger" column.

"Petty Cash" is *credited* with the above payments because it has parted with the money, and, *viâ* the Petty Cash Book, the respective "expense" accounts are *debited* with their respective amounts because the money has been parted with in their direction.

March 31. *Sold for cash* (*placed in Office Cash*), 10 *bags of coffee at* 62*s*. *net*, £31.

"Office Cash" is *debited* with £31 because it has received the money, and the "Sales Account" is *credited* with £31 because goods to that value have been parted with.

March 31. *Drew cheque for* £19 5*s*. 6*d*. *on Bankers in order to restore Petty Cashier's Balance to* £30.

"Petty Cash" must be *debited* with £19 5*s*. 6*d*., because it has received the money, and the "Bank Account" must be *credited* with the same sum because it has parted with it.

The foregoing transactions having thus been duly recorded in the books it remains—

1. To make the additions of, and to post to their respective Ledger accounts, the various Journals,

the "Discount" columns of the Cash Book, and the analysis columns of the Petty Cash Book.

2. Thereafter to extract the Trial Balance as a preliminary step to the final closing of the books.

Taking the Journals first—

(*a*) The Sales Journal and the Returns Outwards Book are added up and their totals are posted to the *credit*, respectively, of the "Sales Account" and the "Returns Outwards Account," the distinctions as to the analysis columns being everywhere followed.

(*b*) The Purchases Journal and the Returns Inwards Book are added up and their totals are posted to the *debit*, respectively, of the "Purchases Account" and the "Returns Inwards Account."

(*c*) (1) The Bills Payable and (2) the Bills Receivable Books are added up, and their totals are posted respectively (1) to the *credit* of the "Bills Payable Account" and (2) to the *debit* of the "Bills Receivable Account."

Next, as regards the Cash Book—

(*d*) The totals of the "Discount" columns having been ascertained, the total of the *debit* "Discount" column appearing in the Cash Book is posted to the *debit* of the "Discount Account" in the Ledger, and the total of the *credit* "Discount" column is posted to the *credit* of the "Discount Account" in the Ledger. These items appear in the Cash Book, as has already been explained, solely as memoranda for convenience of easy record, and to minimize the labour of posting.

And, as regards the Petty Cash Book, the analysis columns are added throughout, whereupon—

(*e*) The totals of the various "expense" analysis columns appearing in the Petty Cash Book are posted in the Ledger in each case to the *debit* of its relative Ledger account—*e.g.* the £1 18*s.*, total of the "Postages and Telegrams" analysis column, is posted to the *debit* of the "Postages and Telegrams" Account in the Ledger.

Finally, the Cash Book ("Office Cash" and "Bank" Accounts) and the Petty Cash Book are added up and the balances appearing thereon are brought down.

By means of the posting of the various totals set forth above the double entry recording the transactions passing through the Journals, Cash Book, and Petty Cash Book has been completed, and, if a Trial Balance be now extracted, its two sides should, if the book-keeping has been correct, agree exactly.

The Trial Balance extracted from J. Harris's books will be found on page 181, and it will be seen that the total debits equal the total credits.

Having completed the Trial Balance it now becomes possible—

1. To compile J. Harris's Trading Account and Profit and Loss Account for the month of March.
2. Thereafter to construct a Balance Sheet for the purpose of showing J. Harris's financial position at the end of the month.

All the transactions in "goods" have, as has already been explained, been placed, each according to its type, in separate classified Ledger accounts, viz. "Stock," "Sales," "Purchases," "Returns Inwards" and "Returns Outwards"; and, for the purpose of constructing a "Trading Account," it is necessary to transfer to the latter all the balances remaining upon the various subsidiary accounts.

The first item to be placed in the Trading Account is the stock of goods on hand as on March 1 with which the trading for the month was commenced; this, as will be seen by a reference to the "Stock Account" (Ledger folio 24), amounted to £4,305, and for this sum a Journal entry, debiting the Trading Account and crediting the Stock Account, is passed through the necessary books.

The next class of item to be considered is that of "Purchases," and here the effect of the "Returns Outwards" upon the balance appearing upon the "Purchases Account" may be usefully considered. It will be remembered that "Returns Outwards" are "Purchases" which, for one reason or another, have been returned to the seller immediately after delivery; and that, although in the Ledger account kept for "Purchases" no note of the deduction of the "Returns" appears, nevertheless the Returns Outwards are included in, and *pro tanto* inflate, the "Purchases" figure. Therefore they must be deducted in compiling the Trading Account in order to show the *net* amount of the actual Purchases at its true and proper figure.

In order to close the Purchases Account a Journal

entry must be passed, crediting the Purchases Account and debiting the Trading Account with the total postings appearing to the debit of the former; but, in posting this debit in the Trading Account, the entry is not made at once in the debit column proper, but is inserted in the "detail" debit column immediately to the left of the debit column proper; in other words, the posting is entered "short" in the debit detail column.

At the same time, in order to close the Returns Outwards Account the balance appearing to the credit of this account must be transferred by means of a Journal entry, debiting the Returns Outwards Account and crediting the Trading Account; but, for the reasons previously given, the posting of this Journal entry in the Trading Account is not made, according to the general rule, in the credit column of the account. The entry in the Trading Account is effected on the *debit side*, in the *detail* column, immediately underneath the total purchases (which latter has already been there entered as set out above), and *as a deduction from the total of the purchases;* the net figure of purchases obtained by thus deducting the Returns Outwards from the gross purchases is then extended into the debit column proper.

Following the lines thus laid down, the Journal entries for the Purchases and Returns Outwards have been passed through the books, and the effect of the record of these Journal entries in the Trading Account is to show the totals of the net purchases as under—

Purchases.		Coffee.	Tea.	Total.
	£ *s. d.*	£ *s. d.*	£ *s. d.*	£ *s. d.*
Coffee . .	1,592 10 0	——	——	——
Less Returns	218 10 0			
	———	1,374 0 0	——	1,604 0 0
Tea . .	230 0 0	——	230 0 0	

Conversely, in the case of the Sales and Returns Inwards a similar principle is followed, and the Sales thereby are shown at their net figure in the Trading Account as under—

Sales.		Coffee.	Tea.	Total.
	£ *s. d.*	£ *s. d.*	£ *s. d.*	£ *s. d.*
Coffee .	3,283 0 0	——	——	——
Less Returns	29 0 0			
	———	3,254 0 0	——	
Tea . .	545 10 0	——		3,784 0 0
Less Returns	15 10 0			
	———	——	530 0 0	

The initial stock of goods on hand and the Purchases and Sales having been thus dealt with, it remains to bring into the Trading Account the stock of goods on hand at the end of the month of March.

This requirement is effected by means of a Journal entry debiting the Stock Account, and crediting the Trading Account with the amount of the Stock on hand, at close of the period, as arrived at by actual valuation, viz.—

	£	s.	d.
Coffee	2,950	15	0
Tea	30	0	0
Total . .	£2,980	15	0

After this entry has been made in the Trading Account it becomes possible to ascertain the amount of the Gross Profit derived from Trading for the month of March, as follows—

	£	s.	d.
Total of the Credit "Total" column .	6,764	15	0
Total of the Debit "Total" column .	5,909	0	0
Difference .	£855	15	0

This difference, *i.e.* the amount necessary to be inserted in order to make the two sides of the Trading Account agree, is the **Gross Profit** for the period. It represents the bare excess of the selling prices obtained for the goods sold over what they have cost, without taking into account the various expenses involved in effecting the sales.

The totals of the postings appearing respectively to debit and credit in the "Coffee" and "Tea" analysis columns are deducted in manner analogous, and reveal the following departmental Gross Profits, viz. Coffee, £756 15*s.* 0*d.*; and Tea, £90. These departmental Gross Profits equal the Total Gross Profit shown in the Total column, and are inserted in their respective analysis columns, which in their turn are added up. Finally, the whole of the items on either side of the statement agree if "cross cast."

For the record of the Gross Profit, and for its subsequent transfer to the Profit and Loss Account, a Journal entry, as under, must be passed through the books and posted; the Trading Account can then be added up and ruled off.

For the Trading Account prepared upon these lines see page 179.

By transferring the amount of the Gross Profit, ascertained by means of the Trading Account, to the credit of the Profit and Loss Account opened for the purpose, a further stage in the closing of the books has been reached, and the preparation of the Profit and Loss Account may now be entered upon.

Beyond the Gross Profit there is, in the example under consideration, no item of "profit" to be credited to the Profit and Loss Account. If such items had existed Journal entries would have become necessary for their transfer to the Profit and Loss Account.

It remains therefore to consider the building up of the debit side of the account, by means of the transfer thereto of all items of "loss" or "expense" chargeable against the profit for the period.

There are, set forth in the notes at the end of the example, certain adjustments which must be made in order to provide for special types of loss, and these provisions must be duly incorporated in the books. They are as under—

	£	s.	d.
(2) *One month's depreciation is to be written off the leasehold land and buildings*	8	6	8
(4) *A Reserve for Bad and Doubtful Debts is to be created of*	85	0	0
(6) *Fittings and Fixtures are to be depreciated by*	1	4	0

For these three adjustments Journal entries are necessary.

Two other adjustments, as set out below, are also necessary, but it is possible to provide for them in carrying down the balances upon the respective accounts; and, although the ordinary Journal entries are passed closing those accounts by means of transfers to the Profit and Loss Account, special Journal entries are not needed in these cases.

	£	s.	d.
(3) *Eleven months' Fire Insurance premium paid in advance is to be carried forward*	1	7	6
(5) *Provision is to be made for sundry expenses due but unpaid at the end of the month*	52	10	0

For the depreciation necessary to be written off the

Leasehold Land and Buildings, and for that which is to be written off the Fixtures and Fittings, a Journal entry has been made crediting the Asset Accounts with the amounts written off, viz. £8 6*s*. 8*d*. and £1 4*s*., and debiting "Depreciation Account" with the total of £9 10*s*. 8*d*.

For the amount which is to be reserved to cover the estimated loss on bad and doubtful debts, *i.e.* £85, a Journal entry has been passed debiting the Profit and Loss Account, and crediting the "Reserve for Bad and Doubtful Debts Account."

It then remains to transfer to the debit of the Profit and Loss Account the balances standing on all the "Expense" and "Loss" Accounts in the Ledger, incidentally bringing adjustments (3) and (5), set out above, into the books at the time of so doing.

As regards adjustment (3), the "Insurance Account" in the Trial Balance shows a debit balance of £1 10*s*., of which 2*s*. 6*d*. only is to be debited to the current Profit and Loss Account, leaving the balance of £1 7*s*. 6*d*. to be carrried forward as an asset. In transferring the "Expense" from the Insurance Account to the Profit and Loss Account therefore the entry is only made for 2*s*. 6*d*., while the balance of the account (£1 7*s*. 6*d*.) is carried down and subsequently appears in the Balance Sheet as an asset.

Adjustment (5) is also dealt with by means of bringing down a balance on the relative "Expense" Account, although the balance in this case is brought down on the credit side, and represents a *liability* for subsequent inclusion in the Balance Sheet in place of the *asset* arising out of adjustment No. (3).

A reference to the Trial Balance and to the "General Expenses" Account will show that this account already exhibits a debit balance of £8 5*s*. 3*d*. Provision for the £52 10*s*. of further expenses due but unpaid at the date of balancing is made—

1. By making, in the General Expenses Account, a debit entry for £52 10*s*. immediately below the items already posted in the account. This entry being intended to be added up together with the previous postings, and the combined total of all the entries (£60 15*s*. 3*d*.) being designed to be transferred to the Profit and Loss Account.
2. By making a credit entry for £52 10*s*. in the

General Expenses Account, well below the items on the debit side, and allowing space for ruling off the account. This entry represents the liability remaining to be satisfied, and, later on, is included in the Balance Sheet.

The total (£60 15*s*. 3*d*.) remaining on the debit side of the General Expenses Account is subsequently transferred to the Profit and Loss Account in the ordinary way, in company with other "expense" accounts; and the ruling off of the account leaves the £52 10*s*. credit entry standing as a liability in the account for satisfaction during the ensuing period.

The "losses" and "expenses" to be transferred to the debit of the Profit and Loss Account are set forth in the last Journal entry but one appearing in the Journal annexed. When these items are duly posted in the Ledger all the "expenses" accounts (except the Insurance and General Expenses Accounts referred to above) are closed, and the balances then remaining upon the Ledger are those either of the Assets, Liabilities, Capital, or Profit and Loss Accounts.

The Profit and Loss Account, when all expenses have been duly posted in it, shows a balance to the credit amounting to £621 6*s*. 1*d*. This balance represents the **Net Profit** for the month, and requires to be transferred, by means of a Journal entry, to the credit of J. Harris's Capital Account. This is the last Journal entry set out in the Journal proper.

With the merging of the balance on the Profit and Loss Account with the Capital Account, the process of closing the books is completed; and, there being now remaining in the Ledger only such balances as represent Assets, Liabilities, and Capital, it is possible to prepare a Balance Sheet.

The Balance Sheet prepared will be found on page 182 and follows the lines laid down in Chapter X. The Assets are ranged in order of their realizability, commencing at the head of the column with the "least easily realizable" property.

There appear in the Balance Sheet appended the following instances of the grouping and classification of balances in order to clearly show the financial position.

On the Liabilities side the amount due to the Wynaad Coffee Company (£1,914 16*s*. 5*d*.) and the amount set

aside for the outstanding expenses (£52 10*s.*) are set out together, and their combined total (£1,967 6*s.* 5*d.*), being the whole amount owing by J. Harris to his creditors (except the £1,500 owing to the Property and Mortgage Trust, Ltd., on the Mortgage of 459c Minories), is extended into the principal debit column of the Balance Sheet. This procedure is followed in order to shōw, in one total, the amount due by J. Harris to his trade creditors. The amount due to the Property and Mortgage Trust, Ltd., being secured upon the value of 459c Minories, is shown as a deduction from the value of the property pledged (£3,000) on the Assets side of the Balance Sheet.

On the Assets side of the Balance Sheet the value of 459c Minories ("Freehold Premises") is shown "short" as £3,000, and the amount borrowed (£1,500) upon security of these premises is shown as a deduction; the balance of £1,500, representing the value of J. Harris's "equity of redemption," or residuary interest in the premises, after providing for the satisfaction of the mortgage upon them, is extended into the principal credit column.

The amount due from Sundry Debtors (£703 10*s.*) (made up of £292 10*s.* due from Francis & Co., and £411 due from the Northern Stores, Ltd.) is shown "short" on the Assets side of the Balance Sheet, and immediately below the £703 10*s.* thus entered is shown the amount of the Bills Receivable on hand (£175 10*s.*); these items are added together (still in the "short" column), and the amount set aside out of profits as a Reserve for Bad and Doubtful Debts (£52 10*s.*) is placed immediately underneath the total due from Debtors and on Bills Receivable, and is deducted from these. The net figure thus obtained (£794) represents the estimated actual value of the indebtedness to J. Harris of his customers, *i.e.* the net value of his "Sundry Debtors" and "Bills Receivable," and it is this estimated "net" value which is extended into the principal column of the Assets side of the Balance Sheet.

The foregoing groupings and deductions have been made in order to show, with a minimum of investigation, the true financial position of J. Harris to any person who may inspect his Balance Sheet.

The various "Wasting" Assets, *e.g.* Leasehold Premises and Furniture and Fixtures, are stated, in accordance with the usual practice, as being included in the Balance Sheet at "cost less depreciation."

Dr. **CASH**

Date.			Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.
1909. Mar. 1	To Balance brought forward								2049	16	6
„ 1	„ *Bank*— Amount drawn as per contra.	Contra				50	0	0			
„ 12	„ *Northern Stores, Ltd.*— Cheque and discount	8	22	0	0				850	0	0
„ 12	„ *Sales*— Cash sales: Coffee, 3 bags at 50s.	25				7	10	0			
	Tea, 10 chests at 60s.	25				30	0	0			
„ 20	„ *Northern Stores, Ltd.*— Cheque and discount	8	10	0	0				1000	0	0
„ 22	„ *Francis & Co.*— Cheque	6							65	10	0
„ 23	„ *Bills Receivable*— For Northern Stores Co.'s acceptance discounted	13							1000	0	0
„ 23	„ *Francis & Co.*— Cheque on account ...	6							15	10	0
„ 24	„ *Property and Mortgage Trust, Ltd.*— Loan on 459c Minories	10							1500	0	0
„ 29	„ *Bank*— As per contra	Contra				50	0	0			
„ 31	„ *Sales*— Cash sales: Ten bags coffee at 62s. net.	25				31	0	0			
	Ledger Dr. Folio ...	18	£32	0	0						
						£168	10	0	£6480	16	6
1909 Mar 31	To Balances brought down.....................	✓				137	7	3	1505	1	6

CONTRA

Cr.

Date.			Discount. £	s.	d.	Cash. £	s.	d.	Bank. £	s.	d.
1909. Mar. 1	By *Office Cash* .... Amount drawn from Bank.	Contra							50	0	0
" 1	" *Petty Cash* .... Amount drawn from Bank.	P.C.							20	0	0
" 10	" *Produce Importing Co., Ltd.*— Cheque and Discount	7	15	0	0				815	0	0
" 15	" *Salaries and Wages*— Salaries and Wages to date	14				12	10	0			
" 15	" *Wynaad Coffee Co.*— Cheque and discount	5	10	0	0				1000	0	0
" 16	" *Furniture and Fixtures*— Electric Light fittings	8				5	7	9			
" 22	" *R. Levy*— On account of purchase price of 459c Minories...............	11							1000	0	0
" 22	" *Francis & Co.*— Cheque dishonoured..	6							65	10	0
" 22	" *Bank Charges*— Discount on Northern Stores's, Ltd., acceptance discounted as per contra........	22							8	15	5
" 24	" *R. Levy*— Balance of purchase money 459c Minories...............	11							2000	0	0
" 24	" *Furniture and Fixtures Account*— Fittings at 459c Minories (R. Levy)	8							10	5	9
" 26	" *Carriage and Cartage*— Forwarding Agency, Ltd., carriage on sundry sales	23							26	18	4
" 29	" *Office Cash*— As per contra..........	Contra							50	0	0
" 29	" *Petty Cash*— To increase balance to £30.................	P.C.							10	0	0
" 30	" *Salaries and Wages*— Salaries and Wages to date....................	14				13	5	0			
" 30	" *Bills Payable*— Produce Importing Co.'s, Ltd., Bill due to-day................	12							400	0	0
" 31	" *Petty Cash*— To restore balance to £30....................	P.C.							19	5	6
	Ledger Cr. Folio.....	18	£25	0	0						
" 31	" Balances carried down	✓				137	7	3	1505	1	6
						£168	10	0	£6480	16	6

PETTY CASH BOOK

Dr. Date.	Dr. Details.	£ s. d.	Cr. Date.	Cr. Details.	Total. £ s. d.	Postages and Telegrams. £ s. d.	Stationery. £ s. d.	Housekeeper, Fires, and Cleaning. £ s. d.	Travelling Expenses. £ s. d.	Repairs. £ s. d.	Ledger. Account.	Ledger. Folio.	Ledger. Amount. £ s. d.
1909. Mar. 1	To Cheque	20 0 0	1909. Mar. 9	By Envelopes and Letter Paper......	1 4 9		1 4 9						
,, 29	,, Cheque	10 0 0	,, 9	,, Door-plates........	3 8 6						Furniture and Fixtures.....	8	3 8 6
,, 31	,, Cheque	19 5 6	,, 9	,, Stamps	0 15 0	0 15 0							
			,, 20	,, Housekeeper and Cleaning to date	2 5 0			2 5 0					
			,, 20	,, Fires to date......	0 8 6			0 8 6					
			,, 20	,, Postages and Telegrams	0 9 6	0 9 6							
			,, 20	,, Fire Insurance Premium, one year from March 1, 1909..............	1 10 0						Insurance..	19	1 10 0
			,, 31	,, Housekeeper	3 9 0			3 9 0					
			,, 31	,, Fires.................	0 10 9			0 10 9					
			,, 31	,, Postages and Telegrams	0 13 6	0 13 6							
			,, 31	,, Travelling Expenses..............	4 3 9				4 3 9				
			,, 31	,, Ink, 3 Bottles....	0 3 6		0 3 6						
			,, 31	,, Repairs to Copying Press..........	0 3 9					0 3 9			
					19 5 6	£1 18 0	£1 8 8	£6 13 8	£4 3 9	£0 3 9			£4 18 6
			,, 31	,, Balance carried down	30 0 0								
		£49 5 6			£49 5 6	*Dr.* Ledger Folio 15.	*Dr.* Ledger Folio 17.	*Dr.* Ledger Folio 17.	*Dr.* Ledger Folio 16.	*Dr.* Ledger Folio 17.			
1909. Mar. 31	To Balance brought down......	30 0 0											

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			£	s.	d.	£	s.	d.
1909. Mar. 1	Sundries Dr.							
	To Sundries—							
	Cash....................	C.B.	2,049	16	6			
	Stock, Coffee on hand	24	4,065	0	0			
	Tea on hand	24	240	0	0			
	Lease of warehouse and land	2	1,500	0	0			
	Francis & Co.........	6	65	10	0			
	Furniture and Fixtures	3	120	0	0			
	Wynaad Coffee Co.	5				2,050	16	5
	Capital Account, J. Harris.........	1				5,989	10	1
	Being Assets, Liabilities, and Capital at the commencement of business.							
			£8,040	6	6	£8,040	6	6
" 22	Freehold Premises Dr.	4	3,000	0	0			
	To R. Levy..............	11				3,000	0	0
	For purchase price of 459c Minories bought this day at auction.							
" 27	Discount Account Dr.	18	4	10	0			
	To Wrightson Bros.	9				4	10	0
	Discount allowed them on payment by acceptance.							
" 31	Trading Account Dr.	29	4,305	0	0			
	To Stock Account— For stock as at March 1, 1909, transferred.							
	Coffee..........	24				4,065	0	0
	Tea....................	24				240	0	0
" 31	Trading Account Dr.	29	1,867	0	0			
	To Sundries— Viz. Purchases Account—							
	Coffee................	26				1,592	10	0
	Tea....................	26				230	0	0
	Returns Iowards Account—							
	Coffee	28				29	0	0
	Tea....................	28				15	10	0
	For transfers.							
" 31	Sundries Dr.							
	To Trading Account	29				4,047	0	0
	Viz. Sales Account—							
	Coffee................	25	3,283	0	0			
	Tea....................	25	545	10	0			
	Returns Outwards Account—							
	Coffee................	27	218	10	0			
	Tea.							
	For transfers.							
	Carried forward ...		£13,223	10	0	£13,223	10	0

JOURNAL—*continued*

1909.			£	s.	d.	£	s.	d.
	Brought forward...		13,223	10	0	13,223	10	0
Mar. 31	Stock Account Dr.							
	Viz. Coffee............	24	2,950	15	0			
	Tea....................	24	30	0	0			
	To Trading Account	29				2,980	15	0
	For Stock on Hand at March 31, 1909.							
,, 31	Trading Account Dr.	29	855	15	0			
	To Profit and Loss Account.............	30				855	15	0
	For Gross Profit for the month of March transferred.							
,, 31	Depreciation Account Dr.	21	9	10	8			
	To Leasehold Land and Buildings......	2				8	6	8
	Fixture and Fittings	3				1	4	0
	For depreciation for one month written off these accounts.							
,, 31	Profit and Loss Account ....Dr.	30	85	0	0			
	To Reserve for Bad and Doubtful Debts	20				85	0	0
	For provision against loss on Francis & Co.'s debt.							
,, 31	Profit and Loss Account...............Dr.	30	149	8	11			
	To Sundries, viz.—							
	Wages and Salaries.	14				25	15	0
	Postages and Telegrams	15				1	18	0
	Travelling Expenses	16				4	3	9
	General Expenses...	17				60	15	3
	Discount...............	18				11	10	0
	Depreciation..........	21				9	10	8
	Insurance.............	19				0	2	6
	Bank Charges and Discount	22				8	15	5
	Carriage and Cartage	23				26	18	4
	For Balances transferred.							
,, 31	Profit and Loss Account...............Dr.	30	621	6	1			
	To J. Harris, Capital Account	1				621	6	1
	For Net Profit for the month of March now transferred.							
			£17,925	5	8	£17,925	5	8

NOTE.—As was explained when dealing with the Journal proper, many of the above items would, in actual practice, be dealt with by the majority of accountants by means of *direct* transfers from one Ledger account to another. It has been thought best, however, to set them out in full for the guidance of the student.

PURCHASES BOOK

Date.	Particulars.	Ledger Folio. (Cr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
1909.											
Mar. 3.	*Produce Importing Co., Ltd.*— 200 bags of Wynaad coffee at 50s......		500	0	0						
	100 chests of Silhana Tea at 46s..	7				230	0	0	780	0	0
„ 20	*Wynaad Coffee Co., Ltd.*— 500 bags of coffee at 46s., less 5 per cent. Trade Discount...............	5	1,092	10	0				1,092	10	0
	Debit Ledger Folio..	26	£1,592	10	0	£230	0	0	£1,822	10	0

SALES BOOK

Date.	Particulars.	Ledger Folio. (Dr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
1909.											
Mar. 6	*Northern Stores, Ltd.*— 500 bags of coffee, medium, at 56s., less 2 per cent. Trade Discount.		1,372	0	0						
	200 chests of tea at 50s. net	8				500	0	0	1,872	0	0
„ 12	*Francis & Co.*— 100 bags of coffee at 60s., less 2½ per cent. Trade Discount	6	292	10	0				292	10	0
„ 19	*Northern Stores, Ltd.*— 500 bags of coffee at 58s. net........		1,450	0	0						
	5 chests of tea at 62s. net............	8				15	10	0	1,465	10	0
„ 25	*Wrightson & Co.*— 50 bags of coffee at 52s. per bag net	9	130	0	0				130	0	0
	Credit Ledger Folio	25	£3,244	10	0	£515	10	0	£3,760	0	0

RETURNS INWARDS BOOK

Date.	Particulars.	Ledger Folio. (Cr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
1909.											
Mar. 19	*Northern Stores, Ltd.*—										
	5 chests of tea, invoiced at 62*s.* per chest net, returned as unsuitable	8				15	10	0			
	10 bags of coffee invoiced at 58*s.* per bag net, returned as unsuitable..........	8	29	0	0				44	10	0
	Debit Ledger Folio	28	£29	0	0	£15	10	0	£44	10	0

RETURNS OUTWARDS BOOK

Date.	Particulars.	Ledger Folio. (Dr.)	Coffee. £	s.	d.	Tea. £	s.	d.	Total. £	s.	d.
1909.											
Mar. 20	*Wynaad Coffee Co., Ltd.*—										
	100 bags of coffee, invoiced at 46*s.* per bag, less 5 per cent. Trade Discount, returned as "not up to sample"..	5	218	10	0				218	10	0
	Credit Ledger folio.............	27	£218	10	0				£218	10	0

BILLS PAYABLE BOOK

Date.	Number.	Drawer.	In whose favour drawn.	For whose account accepted.	Where payable.	Date of Bill.	Tenor.	Due date.	Ledger folio. (Dr.)	Amount. £	s.	d.	Remarks.
1909.													
Mar.10	1	Produce Importing Co.	Produce Importing Co.	Produce Importing Co.	London and Eastern Bank, Ltd.	Mar. 9, 1909	Mar. 30, 1909	Mar. 30, 1909	7	400	0	0	
									Credit L.F. 12	£400	0	0	

BILLS RECEIVABLE BOOK

Date.	Number.	Acceptor.	Drawer.	From whom received.	Where payable.	Date of Bill.	Tenor.	Due date.	Ledger folio. (Cr.)	Amount. £	s.	d.	Remarks.
1909.													
Mar.11	1	Northern Stores, Ltd.	Self.	Northern Stores, Ltd.	North British Bank, Ltd., York	Mar. 10, 1909	3 months' sight	June 14, 1909	8	1,000	0	0	
,, 23	2	Francis & Co.	Self.	Francis & Co.	Finsbury Banking Co., London	Mar. 22, 1909	30 days' sight	April 25, 1909	6	50	0	0	Endorsed by Brown & Co.
,, 27	3	Wrightson Bros.	Self.	Wrightson Bros.	Bank of England	Mar. 27, 1909	3 months' date	June 30, 1909	9	125	10	0	
									Debit L.F. 18 .... £	1,175	10	0	

LEDGER

1 J. Harris, Capital Account 1

Dr. / Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
1909.						1909.					
Mar. 31	To Balance carried forward..	✓	6,610	16	2	Mar. 1	By Balance	J.	5,989	10	1
						,, 31	,, NetProfit for Mar. 1909......	J.	621	6	1
		£	6,610	16	2			£	6,610	16	2
						1909. Mar. 31	By Balance brought down.....	✓	6,610	16	2

2 Lease of Land and Warehouse 2

Dr. / Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
1909.						1909.					
Mar. 1	To Balance	J.	1,500	0	0	Mar. 31	By Transfer to Depreciation Account..	J.	8	6	8
						,, 31	,, Balance carried forward..	✓	1,491	13	4
		£	1,500	0	0			£	1,500	0	0
1909. Mar. 31	To Balance brought down....	✓	1,491	13	4						

3 Furniture and Fixtures 3

Dr. / Cr.

Date	Particulars	Fo.	£	s.	d.	Date	Particulars	Fo.	£	s.	d.
1909.						1909.					
Mar. 1	To Balance	J.	120	0	0	Mar. 31	By Transfer to Depreciation Account.....	J.	1	4	0
,, 9	,, Petty Cash—Door-plates...	P.C.	8	8	6	,, 31	,, Balance carried forward .	✓	137	18	0
,, 16	,, Cash—Electric Light Fittings	C.	5	7	9						
,, 24	,, Cash—Fixtures and Fittings at 459c Minories..	C.	10	5	9						
		£	139	2	0			£	139	2	0
1909. Mar. 31	To Balance brought down...	✓	137	18	0						

4 Freehold Premises (459c Minories, E.C.) 4

Dr.											Cr.
1909.			£	s.	d.						
Mar. 22	To R. Levy purchase price of 459c Minories	J.	3,000	0	0						
		£	3,000	0	0						

5 Wynaad Coffee Co., Ltd. 5

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Mar. 15	To Cash and Discount	C.	1,010	0	0	Mar. 1	By Balance	J.	2,050	16	5
,, 20	,, Returns 100 bags coffee...	R.O.	218	10	0	,, 20	,, 500 Bags coffee....	P.	1,092	10	0
,, 31	,, Balance carried forward..	✓	1,914	16	5						
		£	3,143	6	5			£	3,143	6	5
						1909. Mar. 31	By Balance brought down ...	✓	1,914	16	5

6 Francis & Co. 6

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Mar. 1	To Balance	J.	65	10	0	Mar. 22	By Cash ...	C.	65	10	0
,, 12	,, 100 bags coffee	S.	292	10	0	,, 23	,, Cash ...	C.	15	10	0
,, 22	,, cheque dishonoured	C.	65	10	0	,, 23	,, Bill Receivable..	B.R.	50	0	0
						,, 31	,, Balance carried forward..	✓	292	10	0
		£	423	10	0			£	423	10	0
1909. Mar. 31	To Balance brought down....	✓	292	10	0						

7 Produce Importing Co., Ltd. 7

Dr. **Cr.**

			£	s.	d.				£	s.	d.
1909.						1909.					
Mar. 10	To Bill payable	B.P.	400	0	0	Mar. 3	By 200 bags coffee ...	P.	500	0	0
„ 10	„ Cash and discount...	C.	330	0	0	„ 3	„ 100 chests tea......	P.	230	0	0
		£	730	0	0			£	730	0	0

8 Northern Stores, Ltd. 8

Dr. **Cr.**

			£	s.	d.				£	s.	d.
1909.						1909.					
Mar. 6	To 500 bags coffee..	S.	1,372	0	0	Mar. 11	By Bill Receivable	B.R.	1,000	0	0
„ 6	„ 200 chests tea......	S.	500	0	0	„ 12	„ Cash and discount...	C.	872	0	0
„ 19	„ 500 bags coffee..	S.	1,450	0	0	„ 19	„ Returns 5 chests tea......	R.I.	15	10	0
„ 19	„ 5 chests tea	S.	15	10	0		„ 10 bags coffee..	R.I.	29	0	0
						„ 20	„ Cash and discount...	C.	1,010	0	0
						„ 31	„ Balance carried forward	✓	411	0	0
		£	3,337	10	0			£	3,337	10	0
1909. Mar. 31	To Balance brought down....	✓	411	0	0						

9 Wrightson Bros. 9

Dr. **Cr.**

			£	s.	d.				£	s.	d.
1909.						1909.					
Mar. 25	To 50 bags coffee ...	S.	130	0	0	Mar. 27	By Bill Receivable	B.R.	125	10	0
							„ Discount	J.	4	10	0
		£	130	0	0			£	130	0	0

10 Property and Mortgage Trust, Ltd. 10
(Loan Account on Mortgage)

Dr. Cr.

			£	s.	d.	1909.			£	s.	d.
						Mar. 24	By Cash—Loan at 4 per cent. p.a. on mortgage of 459c Minories	C.	1,500	0	0
								£	1,500	0	0

11 R. Levy 11

Dr. Cr.

1909.			£	s.	d.	1909.			£	s.	d.
Mar. 22	To Cash deposit on purchase of 459c Minories	C.	1,000	0	0	Mar. 22	By Purchase price 459c Minories.	J.	3,000	0	0
" 24	" Cash—Balance of purchase money, 459c Minories....	C.	2,000	0	0						
		£	3,000	0	0			£	3,000	0	0

12 Bills Payable 12

Dr. Cr.

1909.			£	s.	d.	1909.			£	s.	d.
Mar. 30	To Cash—Produce Importing Co., Ltd., Bill honoured	C.	400	0	0	Mar. 31	By Sundries, as per Bills Payable Book....	B.P.	400	0	0
		£	400	0	0			£	400	0	0

13 Bills Receivable 13

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Mar. 31	To Sundries, as per Bills Receivable Book	B.R.	1,175	10	0	Mar 28	By Cash—Northern Stores', Ltd., acceptance discounted..........	C.	1,000	0	0
						„ 31	„ Balance carried down.....	✓	175	10	0
		£	1,175	10	0			£	1,175	10	0
1909.											
Mar. 31	To Balance brought down ...	✓	175	10	0						

14 Wages and Salaries 14

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Mar. 15	To Cash.........	C.	12	10	0	Mar. 31	By Transfer to Profit and Loss Account.........	J.	25	15	0
„ 30	„ Cash.........	C.	13	5	0						
			£25	15	0				£25	15	0

15 Postages and Telegrams 15

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Mar. 31	To Petty Cash	P.C.	1	18	0	Mar. 31	By Transfer to Profit and Loss Account.........	J.	1	18	0
			£1	18	0				£1	18	0

16 Travelling Expenses 16

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Mar. 31	To Petty Cash	P.C.	4	3	9	Mar. 31	By Transfer to Profit and Loss Account.........	J.	4	3	9
			£4	3	9				£4	3	9

17 General Expenses 17

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Mar. 31	To Petty Cash, viz.— Stationery......	P.C.	1	8	3	Mar. 31	By Transfer to Profit and Loss Account	J.	60	15	3
	Housekeeper (Fires and cleaning)......	P.C.	6	13	3						
	,, Repairs.......	P.C.		3	9						
,, 31	,, Balance carried forward (being provision for Expenses due but unpaid)..	✓	52	10	0						
			£60	15	3				£60	15	3
						1909.					
						Mar. 31	By Balance brought forward	✓	52	10	0

18 Discount Account 18

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Mar. 27	To Wrightson Bros.	J.	4	10	0	Mar. 31	By Sundries, as per Cash Book	C.B.	25	0	0
,, 31	,, Sundries, as per Cash Book	C.B.	32	0	0	,, 31	,, Transfer to Profit and Loss Account	J.	11	10	0
			£36	10	0				£36	10	0

19 Insurance 19

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Mar. 30	To Petty Cash— 1 years' Fire Insurance Premium paid in advance as from Mar. 1, 1909	P.C.	1	10	0	Mar. 31	By Transfer to Profit & Loss Account......	J.	0	2	6
						,, 31	,, Balance carried forward	✓	1	7	6
			£1	10	0				£1	10	0
1909.											
Mar. 31	To Balance brought forward	✓	1	7	6						

20 Reserve for Bad and Doubtful Debts 20

Dr.			£	s.	d.		Cr.		£	s.	d.
						1909. Mar. 31	By Transfer from Profit and Loss Account	J.	85	0	0
									£85	0	0

21 Depreciation 21

Dr.			£	s.	d.		Cr.		£	s.	d.
1909. Mar. 31	To Transfer from Leasehold Land and Buildings Account	J.	8	6	8	1909. Mar. 31	By Transfer to Profit and Loss Account	J.	9	10	8
„ 31	„ Transfer from Fixtures and Fittings Account	J.	1	4	0						
			£9	10	8				£9	10	8

22 Bank Charges and Bank Discount 22

Dr.			£	s.	d.		Cr.		£	s.	d.
1909. Mar. 22	To Cash—Discount on Northern Stores' acceptance discounted	C.	8	15	5	1909. Mar. 31	By Transfer to Profit and Loss Account	J	8	15	5
			£8	15	5				£8	15	5

23 Carriage and Cartage 23

Dr.			£	s.	d.		Cr.		£	s.	d.
1909. Mar. 26	To Cash—Forwarding Agency, Ltd., carriage on sundry goods sold............	C.	26	18	4	1909. Mar. 31	By Transfer to Profit and Loss Account	J.	26	18	4
			£26	18	4				£26	18	4

24 Stock Account 24

Dr / Cr.

Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.	Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
1909. Mar. 1	To Balance .	J.	4,065 0 0	240 0 0	4,305 0 0	1909. Mar. 31	By Transfer to Trading Account...	J.	4,065 0 0	240 0 0	4,305 0 0
			£4,065 0 0	£240 0 0	£4,305 0 0				£4,065 0 0	£240 0 0	£4,305 0 0
1909. Mar. 31	To Stock ...	J.	2,950 15 0	30 0 0	2,980 15 0						

25 Sales Account 25

Dr. / Cr.

Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.	Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
1909. Mar. 31	To Transfer to Trading Account...	J.	3,283 0 0	545 10 0	3,828 10 0	1909. Mar. 12	By Cash Sales	C.	7 10 0	30 0 0	37 10 0
						,, 31	,, Cash Sales	C.	31 0 0		31 0 0
						,, 31	,, Sales for the month as per Sales Book...	S.	3,244 10 0	515 10 0	3760 0 0
			£3,283 0 0	£545 10 0	£3,828 10 0				£3,288 0 0	£545 10 0	£3.828 10 0

26 Dr. **Purchases Account** Cr. **26**

Date.			Coffee.			Tea.			Total.			Date.			Coffee.			Tea.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.	£	s.	d.
1909. Mar. 31	To Sundry Purchases on credit for the month as per Purchases Book	P.	1,592	10	0	230	0	0	1,822	10	0	1909. Mar. 31	By Transfer to Trading Account...	J.	1,592	10	0	230	0	0	1,822	10	0
			£1,592	10	0	£230	0	0	£1,822	10	0				£1,592	10	0	£230	0	0	£1,822	10	0

27 Dr. **Returns Outwards** Cr. **27**

Date.			Coffee.			Tea.			Total.			Date.			Coffee.			Tea.			Total.		
			£	s.	d.	£	s.	d.	£	s.	d.				£	s.	d.	£	s.	d.	£	s.	d.
1909. Mar. 31	To Transfer to Trading Account....	J.	218	10	0				218	10	0	1909. Mar. 31	By Sundry Returns for the month as per Returns Outwards Book	R.O.	218	10	0				218	10	0
			£218	10	0				£218	10	0				£218	10	0				£218	10	0

28 **Returns Inwards** 28

Dr.

Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
1909. Mar. 31	To Returns Inwards for the month as per Returns Inwards Book.........	R.I.	29 0 0	15 10 0	44 10 0
			£29 0 0	£15 10 0	£44 10 0

Cr.

Date.			Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
1909. Mar. 31	By Transfer to Trading Account...	J.	29 0 0	15 10 0	44 10 0
			£29 0 0	£15 10 0	£44 10 0

J. Harris.

29 **Trading Account for the month of March 1909** 29

Dr.

Date.				Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
1909. Mar. 1	To Stock		J.	4,065 0 0	240 0 0	4,305 0 0
" 31	To Purchases—					
	Coffee....	1,592 10 0				
	Less Returns ...	218 10 0	J.	1,374 0		
	Tea.........	230 0 0			230 0 0	1,604 0 0
" 31	" Balance, being Gross Profit, transferred to Profit and Loss Account		J.	765 15 0	90 0 0	855 15 0
			£	6,204 15 0	£500 0 0	£6764 15 0

Cr.

Date.				Coffee. £ s. d.	Tea. £ s. d.	Total. £ s. d.
1909. Mar. 31	By Sales—					
	Coffee.....	3,283 0 0				
	Less Returns...	29 0 0	J.	3,254 0 0		
	Tea.........	545 10 0				
	Less Returns...	15 10 0	J.		530 0 0	3,784 0 0
" 31	" Stock on Hand as per valuation		J.	2,950 15 0	30 0 0	2,980 15 0
				£6204 15 0	£560 0 0	£6764 15 0

J. HARRIS.

30 **Profit and Loss Account for the month of March 1909** 30

Dr. Cr.

1909.			£	s.	d.	1909.			£	s	d.
Mar. 31	To Wages and Salaries	J.	25	15	0	Mar. 31	By Gross Profit brought from Trading Account	J.	855	15	0
,, 31	,, Postages and Telegrams	J.	1	18	0						
,, 31	,, Travelling Expenses	J.	4	3	9						
,, 31	,, General Expenses	J.	60	15	3						
,, 31	,, Discount	J.	11	10	0						
,, 31	,, Depreciation— Fixtures and Fittings 8 6 8; Leasehold Land 1 4 0	J.	9	10	8						
,, 31	,, Reserve for Bad and Doubtful Debts	J.	85	0	0						
,, 31	,, Insurance	J.	0	2	6						
,, 31	,, Bank charges and Bank discount	J.	8	15	5						
,, 31	,, Carriage and Cartage	J.	26	18	4						
,, 31	,, Balance, being Net Profit for the month, transferred to J. Harris's Capital Account	J.	621	6	1						
			£855	15	0				£855	15	0

J. HARRIS.

TRIAL BALANCE, March 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
1	J. Harris's Capital Account				5,989	10	1
2	Lease of Land and Warehouse... ...	1,500	0	0			
3	Furniture and Fixtures Account ...	189	2	0			
4	Freehold Premises Account	3,000	0	0			
5	Wynaad Coffee Co.				1,914	16	5
6	Francis & Co.	292	10	0			
8	Northern Stores, Ltd.	411	0	0			
10	Property and Mortgage Trust, Ltd. (Loan Account)........................				1,500	0	0
13	Bills Receivable	175	10	0			
14	Wages and Salaries	25	15	0			
15	Postages and Telegrams	1	18	0			
16	Travelling Expenses	4	8	9			
17	General Expenses	8	5	3			
18	Discount Account	11	10	0			
19	Insurance..................................	1	10	0			
22	Bank Charges and Bank Discount	8	15	5			
23	Carriage and Cartage	26	18	4			
24	Stock (March, 1, 1909)—						
	Coffee	4,065	0	0			
	Tea	240	0	0			
26	Purchases Account	1,822	10	0			
25	Sales Account..............................				8,828	10	0
28	Returns Inwards	44	10	0			
27	Returns Outwards				218	10	0
P.C.	Petty Cash	80	0	0			
C.B.	Cash at Bank..	1,505	1	6			
C.B.	Office Cash	137	7	3			
		13,451	6	6	£13,451	6	6

I. Harris.

BALANCE SHEET, as at March 31, 1909

Liabilities.	£	s.	d.	£	s.	d.
Sundry Creditors—						
Trade Creditors.	1,914	16	5			
Expenses outstanding	52	10	0			
				1,967	6	5
J. Harris's Capital Account—						
Balance, March 1, 1909	5,989	10	1			
Add Profit for March 1909	621	6	1			
				6,610	16	2
				£8,578	2	7

Assets.	£	s.	d.	£	s.	d.
Freehold Premises, at cost	3,000	0	0			
Less Mortgage thereon	1,500	0	0			
				1,500	0	0
Leasehold Premises, at cost	1,500	0	0			
Less Depreciation	8	6	8			
				1,491	13	4
Furniture and Fixtures, at cost	139	2	0			
Less Depreciation	1	4	0			
				137	18	0
Insurance paid in advance				1	7	6
Sundry Debtors	703	10	0			
Bills Receivable	175	10	0			
	879	0	0			
Less Reserve for Bad and Doubtful Debts	85	0	0			
				794	0	0
Stock on Hand as per valuation				2,980	15	0
Cash at the Bank	1,505	1	6			
" in Hand	167	7	3			
				1,672	8	9
				£8,578	2	7

CHAPTER XII

Cheques and Bills of Exchange

CHEQUES

It has already been stated that, in Great Britain, the customary method of transferring money from one person to another, in commercial circles, is by employment of the Cheque system. The more general use of Cheques has been fostered in recent years by the establishment of numerous Banks throughout the country, many of which are branches of powerful financial institutions, having their head offices in London. The extent to which the Cheque is now used in monetary transactions can be readily computed from the total amount of such documents passing through the Bankers' Clearing House. The total Cheques and bills "cleared" (*i. e.* paid) in this way during the year 1909 exceeded thirteen and a half thousand million pounds sterling.

The many disadvantages of discharging commercial obligations by means of coin have already been touched upon. These disadvantages were not by any means altogether removed by the issue of bank-notes, notwithstanding their portability. The very strength of the Bank of England note is, in some respects, a drawback, since such notes are payable in gold at sight to any holder.

The fact that Cheques have largely driven bank-notes and coin out of circulation, combined with their general convenience, and the safeguards which can be appended to them have, probably, had no small part in the development of trade which recent years have witnessed.

The utility and advantages of Bills of Exchange in commercial transactions, both to the person "accepting" them and to the person "drawing" them, have already been referred to briefly, and it is now proposed to describe the main features of Cheques and Bills of Exchange in the forms in which they are usually met with in actual business transactions.

Several varieties of Cheque forms are in current use, their general principle being the same, the difference between the varying types of Cheques being chiefly dependent upon the way in which the money is to be placed in possession of the holder of the Cheque. As the student is probably aware, it is possible by the addition of certain words to a Cheque, to render it less useful to, and less easily converted into money by, any person obtaining possession of it wrongfully.

A **Cheque** may be defined as a written order drawn by a customer of a Bank upon that Bank directing the payment of a specified sum of money from such customer's banking account; the statutory definition of a Cheque being "a Bill of Exchange drawn on a banker payable on demand."

A specimen form of an "Order" Cheque appears on page 21.

The Cheque there illustrated directs the payment of £120 to "Messrs. Finch & Walker or Order" from J. Bird & Co.'s banking account with the Union of London and Smith's Bank, Limited.

This Cheque, being an "**Order Cheque**," requires "endorsement" by the persons to whom it is made payable (Messrs. Finch & Walker), or, in other words, they must write their name on the back of the Cheque before it can be presented for payment. If the words "or Bearer" had been inserted in place of the words "or Order" the Cheque would be termed a "**Bearer Cheque**," and would be payable without any endorsement. It will be obvious that the requisition of an endorsement constitutes an additional safeguard, and, for this reason, "Order" Cheques are much more frequently met with in commerce than "Bearer" Cheques, although the latter are still used to a large extent between members of the London Stock Exchange.

A large proportion of the Cheques drawn in discharge of financial obligations are never presented for actual encashment over the Bank counter, they are paid by the holders into their own Bank for collection, and in this manner reach the "Clearing House" in due course, where they are cancelled against one another, when the claims of the various Banks, as between themselves, are daily adjusted (see p. 435).

The "**Payee**" of an "Order" Cheque (*i. e.* the person to whom such a Cheque is expressed to be payable) can,

if he so desire, direct, when endorsing the Cheque, the payment of it to some third party, *e.g.* if Messrs. Finch & Walker had desired to send the Cheque described above to Horace James for their credit, they could have endorsed it as follows—

"Pay Horace James or Order.
"Finch & Walker."

and in this event the new "**Endorsee,**" Horace James, must himself endorse the Cheque in order to obtain payment of it.

"Order" Cheques, inasmuch as they need endorsement, can only be drawn in favour of persons or corporate bodies; but "Bearer" Cheques, as they need no endorsement, can be drawn for, or in favour of, "expenses" or particular purposes—

e.g. "Pay Wages . . . or Bearer."
"Pay Cash . . . or Bearer."

One advantage of this course lies in the fact that a memorandum of the specific purpose for which the cheque was drawn is recorded upon the counterfoil of the cheque, and is available for future reference in case of need.

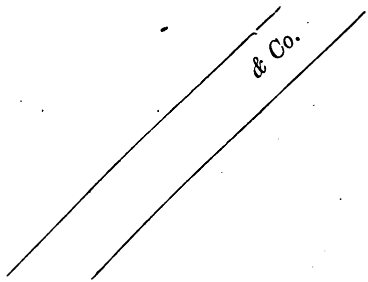
An additional safeguard can be imparted to a Cheque by the use of what is commercially known as a "**Crossing.**"

This practice originated many years ago with the London Clearing House, and was subsequently declared to be of legal validity, and has now become almost universal. If two transverse parallel lines, with or without the words "and Company," or any abbreviation thereof, be drawn across the face of a Cheque it will not be paid by the Banker upon whom it is drawn to any one presenting it except another Banker, and if the name of any particular Banker is inserted between the two parallel lines, the Cheque will not be paid to any one except that particular Banker.

The effect of this proviso is that a "crossed Cheque," in which the name of a particular Banker has not been inserted in the crossing, can only be converted into money by a person who possesses an account with a Banker, and that a crossed Cheque in which the name of a particular Bank is inserted can only be cashed by being paid by a customer of that Bank to his banking account. A crossed Cheque cannot legally be paid over his counter by the Banker upon whom it is drawn, even though presented for payment by the person in whose favour it is drawn. These

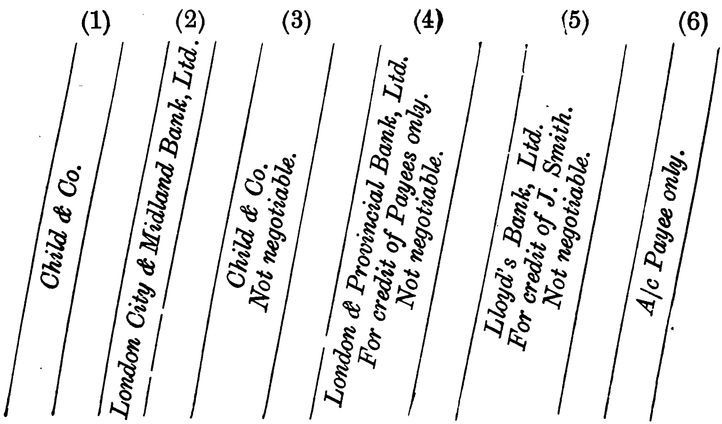
provisions obviously render a crossed Cheque more difficult of encashment by a person obtaining wrongful possession of it than is the case with a Cheque which is not "crossed" (called an "**open Cheque**"). The custom of paying accounts by means of crossed Cheques transmitted through the post has become well nigh universal now-a-days among traders, and the "crossing" upon such Cheques, restricting their usefulness to those members of the community who possess banking accounts, has tended to encourage the rapid growth of this custom.

The form of crossing upon a Cheque, in cases where it is not "crossed" to any particular Banker, is as under—



The above form of crossing is referred to as a "**general crossing.**"

Other forms of "crossings" which will be found in common use are as illustrated hereunder—



Form 1 is the simple form of a "**special crossing,**" which restricts the Cheque from being cashed except through the particular Banker whose name is written in the crossing.

Form 2 is a similar crossing wherein the name of a Joint Stock Banking Company is inserted.

Form 3 is a form of "special" crossing containing, in addition to the Banker's name, the words "not negotiable."

A Cheque, like a Bill of Exchange or a Promissory Note, is a "**negotiable instrument.**" A "negotiable instrument" is one which, if taken by any person in good faith, and in exchange for value, becomes the property of such holder, and can be enforced by him, as regards the payment of it at its due date, notwithstanding any defects of title to the document which may exist on the part of the person from whom such holder acquired it.

For example, if a person, in good faith and for value, acquires from any one who has stolen it, a Cheque drawn by a third party, the third party cannot refuse to honour the Cheque on the ground that it has been stolen. The fact that the holder of the Cheque in question has received it not knowing that it was stolen property, and has given value for it, places him in an indisputable position legally as regards his ability to enforce the payment of it. A negotiable instrument may thus become analogous to coin of the realm; and, in point of fact, the employment of Cheques in making money payments has, to a very large extent, taken the place of the use of coin in commercial transactions.

This "negotiability," although most valuable in the case of Bills of Exchange, is a somewhat inconvenient characteristic from the point of view of the drawer of a Cheque in the event of the Cheque failing to reach the hands of the person for whom it was destined. The drawer of a Cheque which is "negotiable" may be forced to pay it, when it is in the hands of a third party, if it should be stolen in course of transit by an individual who sells it to such third party; and, in addition to such payment, he will still be in the position of not having discharged his obligation to the person to whom the Cheque was originally sent.

In order to meet this objection it is legally permissible to add to the crossing of a Cheque the words "not negotiable." The addition of these words does not actually make a Cheque not *transferable* from one party to

another, but the qualification has the effect of preventing the holder from passing on a better title to the document than he has himself, and generally subjects the Cheque so crossed to the ordinary provisions of the law regarding property, viz. that a purchaser cannot acquire any better title to property than was possessed by the vendor of it.

If a Cheque so marked "not negotiable" be stolen, the taint of theft attaches to it, and prevents any successive holder of it from acquiring any better title to the document than was possessed by the thief himself, and a person who steals property obviously acquires no legal ownership to it at all.

The drawer of a "not negotiable" Cheque can thus refuse to honour it if it is stolen, whereas the drawer of a cheque which is not so marked need not pay any holder who took it either *mala fide* or without value, but must pay an honest "holder for value."

Bills of Exchange and Promissory Notes, together with certain other sorts of commercial documents * (*e.g.* Foreign Government Bonds payable to Bearer), are also "negotiable instruments"; the above-mentioned provisions as to the use of the words "not negotiable" in their protective sense apply, however, only to crossed Cheques. Negotiable instruments of other classes cannot be deprived of their negotiable characteristics by the addition of any such words, nor, seeing that other analogous documents are far less easy of prompt conversion into money, does there appear to be any urgent need for such qualifying conditions.

Forms 4 *and* 5 are examples of "not negotiable" crossings wherein a direction is added as to the particular account to which the Cheque is to be credited by the collecting Banker, *e.g.* "for credit of payees only," or "for credit of J. Smith." Such additions are very frequently met with in practice, but their use is not authorized by any statute; the precise legal effect of such adjuncts is thus uncertain, but, in all probability, they would be held to operate legally as a warning to the collecting Banker, and as indicating the person for whose behalf he is to collect the Cheque. Their ordinary commercial signification is, of course, that the collecting Banker is only to collect such Cheques on behalf of the person specified therein, but it cannot be definitely

* Bills of Lading, if endorsed, are transferable by simple delivery; they do not, however, possess the other characteristics of negotiable instruments.

affirmed that such is their legal meaning, although it may be assumed that it is probable that this is the case.

Form 6.—This is a crossing much in use in paying private personal accounts, in cases where the name of the payee's Banker is unknown.

Cheques are usually drawn upon the special printed forms supplied in books by Bankers to customers keeping accounts with them; they must bear a penny stamp, and books of cheque forms are supplied already stamped, the cost of such stamps being debited to the customer. In a legal sense Cheques may be drawn upon any piece of paper, and need not necessarily be upon the special forms supplied by the Banks, but the latter wisely discountenance the use of any forms other than those supplied by themselves. In the case of a Cheque so drawn on an ordinary plain piece of paper the inland revenue stamp need not be impressed as is the case where the Bank's own forms are purchased by the customer ready stamped; an ordinary penny "postage and inland revenue" stamp is sufficient if cancelled by the drawer at the time of signing the Cheque.

Of late years a custom has arisen, in the case of many large mercantile firms, of printing on their Cheque forms a form of receipt to be signed at the foot by the person in whose favour the Cheque is drawn; the Cheque, when returned by the Bank to the drawer after payment, thus becomes a convenient form of receipt, and contains the full history of the payment made. The Cheque employed in such cases usually takes the undermentioned form—

No. .... *London*............................. 1909.

To the UNION OF LONDON & SMITH'S BANK, LTD. STAMP 1*d.*

Pay to the order of ....

the sum of ....subject to the receipt at the foot hereof being duly signed.

(Signature of drawer)..

£.........................

Form of Receipt.

Received the above-mentioned sum of.................................

(Signature of payee)

.... STAMP 1*d.* ——

Dated this................................190

Additional space is sometimes supplied to allow the entry of brief particulars of the purpose for which the money was paid, *e.g.* "for goods supplied."

Bankers "**stop,**" *i.e.* refuse, payment of cheques drawn upon them under the following circumstances—

(1) Knowledge of Bankruptcy or an "act of Bankruptcy" on the part of the drawer.
(2) Notice of the drawer's death.
(3) Receipt of "garnishee order," *i.e.* an order from a court of law, obtained by one of the customer's creditors, placing a legal encumbrance on the customer's bank balance.
(4) Notice from the drawer instructing the Banker to stop payment of the Cheque.
(5) Want of funds, *i.e.* an insufficient balance to the customer's credit.
(6) Cheque "out of order," *i.e.* when incorrectly drawn or containing some informality.

Cheques, the payment of which has been refused, are marked by Bankers as follows·

I/F (Insufficient Funds)
R/D (Refer to Drawer).
N/S (Not Sufficient Funds).
"Not in order."
"Figures and writing disagree."
"No effects" (insufficient balance).
"Effects not cleared."
"Account closed."
"Drawer dead," etc., etc.

Bills of Exchange

The modern Bill of Exchange is a versatile instrument of credit, the general nature and principal uses of which have been broadly outlined in Chapter II; it remains to be explained, in more detail, some of the most common forms and varieties in which these documents are met with.

A Bill of Exchange is legally defined "as an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a certain sum in money to, or to the order of, a specified person or to bearer."

A Cheque comes, as will be seen, within the limits of this definition, and Cheques therefore rank legally as

Bills of Exchange drawn on a Banker and payable on demand.

In 1882 the multitude of legal decisions affecting Bills of Exchange were codified by the Bills of Exchange Act, which, with a few amendments, still applies.

As has been previously explained, the person to whom a Bill of Exchange is addressed (the "**Drawee**") signifies his promise to pay the bill at maturity by writing his name transversely across the face of the bill, adding, in many cases, the word "accepted," and frequently indicating a particular Bank or other place where the bill is to be presented when it falls due, and where it will be paid upon presentation. If the drawee of the bill (who by thus undertaking to pay it becomes the "**Acceptor**") indicates, as he usually does, his own Bank as the place where the bill is to be payable, such form of acceptance operates *ipso facto* as an authority to his Banker to pay the bill on his behalf when it falls due, and to charge him (the customer) with the amount so disbursed.

Bills of Exchange are commonly drawn "to the order" of the drawer, or of some other party nominated by the drawer. The employment of such words involves the "endorsement" of the bill by such "payee," just as was explained to be the case with reference to a Cheque when drawn "to order." An endorser may, if he so desires, indicate on the back of the bill, when endorsing it, the name of a person to whom he wishes to direct payment of the bill to be made, and this direction in turn necessitates the endorsement of the bill by such other person. This process of "**endorsing over**" a Bill of Exchange from one payee to another is very prevalent in commerce, especially when a bill changes hands many times in the course of its short life, and the successive endorsements frequently occupy the whole of the back of the bill as well as a further slip of paper (called an "**Allonge**") which has to be gummed to the bill in order to accommodate further endorsements. It must be remembered that the drawer and all the successive endorsers are each of them liable to pay the full amount of the bill if it should be dishonoured by the acceptor at maturity. A good Bill of Exchange containing the signatures, in one capacity or another, of several firms of established reputation furnishes a triple, quadruple, or even greater combination of guarantors for the payment of the amount of the bill at maturity. The

favour with which Bankers regard good bills as a convenient form of temporary liquid investment, is thus easily comprehensible. It will also be obvious to the student that the Bill of Exchange offers a simple and efficacious device for financing commercial transactions, the acceptor of the bill frequently having the opportunity of selling the goods against which the bill is drawn before he has to provide for the payment of it.

The ordinary form of an "**Inland**" Bill of Exchange (*i.e.* one drawn for use in this country) is given on page 193.

This bill would fall due on November 30, 1908 (allowing for the three "days of grace"), and would need endorsement by Messrs. Heywood & Platts.

The circumstances out of which such a bill might be assumed to arise would be that Mr. John Harman, having, as the result of some transaction, become the debtor of Messrs. Heywood & Platts, the latter have "**drawn upon**" him for the amount due by means of a bill as illustrated. In due course Mr. John Harman will "**accept**" the bill by writing his signature across it, with or without the word "accepted."

On maturity the bill will be presented by the holder of it (usually through the Bankers of such holder) wherever it has been made payable by the drawee. If the acceptor has made the acceptance payable at his Bankers, but on its maturity has not sufficient funds with the latter to meet the bill, they will refuse to pay it, and the bill will consequently be returned "**dishonoured**" to the holder. Before being returned, it will be handed, in the absence of instructions to incur no charges, by the collecting Banker to a Notary Public, in order that the latter may himself re-present the bill to the bank in question, and may formally record the fact of its having been dishonoured. The Notary Public, in such a case, attaches a small gummed ticket to the bill, containing his name, a note of his charges (usually a few shillings) for "**noting**" non-payment, together with the reason given for such non-payment upon presentation of the bill. The holder of the bill is allowed one clear day in which to endeavour to obtain payment from any of the parties to the bill. If subsequently desired, the Notary is then, after the above formalities, in a position to draw up a formal document, a "**Protest**," setting forth that the bill has not been met at maturity; in the case of an inland bill, the extra expense entailed by this procedure is very seldom deemed

INLAND BILL OF EXCHANGE.

No. 156 £4 : 19 : 7 LONDON. November 24th 1908

Three days after date pay to our Order

Four pounds nineteen shillings and sevenpence

Value received.

To Mr. John Harman,
52 George Street,
Worcester.

Heywood & Platt

PROMISSORY NOTE.

£20 : 18 : 6 Coventry, 12 December 1908

On Demand I promise to pay

Messrs. James Elkington & Co. or Order

Twenty pounds eighteen shillings and sixpence Value received.

Arnold Callaghan

necessary, except in cases where legal action to enforce the bill is contemplated. "**Foreign**" bills (*i. e.* bills drawn or payable abroad) are almost invariably "protested" as well as "noted," as the formal protest becomes legally necessary.

Upon the dishonour of a bill, the holder can call upon the drawer or any of the endorsers to pay it, but any person liable by reason of his signature appearing on the bill can, if he honours it himself, recover the money from any of the other persons liable on the bill previously to himself, *e. g.* an endorser honouring a bill can recover the money from any other endorser whose signature appeared upon the bill prior to his own, or from the drawer of the bill, or from the acceptor himself. Similarly the drawer, if called upon to pay the bill, can recover from the acceptor. The holder of a dishonoured bill must, *immediately* upon its dishonour, give notice of the fact of such dishonour to all persons liable upon the bill (except the acceptor) as otherwise they may become legally relieved from liability to pay the bill.

The charges for noting must be paid by the holder of a dishonoured bill to his Banker in the first instance, but, together with the amount of the bill itself, they can be thereafter recovered from the persons liable on it.

A dishonoured bill is frequently "**renewed,**" in whole or in part, *i. e.* a fresh bill for the amount agreed upon is given between the original parties. This fresh bill ranks, however, for book-keeping purposes, as a new transaction.

Foreign bills, *i. e.* bills drawn in one country but becoming payable in another, resemble inland bills in their main characteristics, but are the subject of certain special circumstances in practice. Foreign bills, *e. g.* bills drawn in Japan upon a merchant in London, are frequently discounted by their drawers with foreign Banks directly after they have been drawn and before they have been accepted, the Banks relying in these cases upon the reputation of the drawer, and upon his ability to pay the bill if it is subsequently returned to them unpaid. Such bills are transmitted by the foreign Banks to their banking correspondents in this country for presentation on their behalf to the British firms upon whom they are drawn. If, when a bill so reaches London for acceptance, the person upon whom it is drawn refuses to accept it, the same consequences ensue as if the bill had been dishonoured at maturity, *i. e.* the drawer becomes immediately liable to

pay it, and the endorsers (if any there be) also become liable to honour it, notwithstanding the fact that its nominal due date has not yet arrived, and the bill passes at once to a Notary for "noting" and "protest."

A British merchant upon whom a bill has been drawn by one of his foreign creditors cannot be compelled to accept the bill by the Bank holding it, but his refusal to accept it would, in ordinary circumstances, be detrimental to the credit of the foreign drawer. If, as between the drawer and himself, there is a general arrangement for the acceptance of bills, refusal to carry out such an arrangement renders the British merchant liable to be sued for damages to the extent of the loss entailed to the foreign drawer.

Foreign bills are occasionally drawn in duplicate, or even in triplicate, this precaution being effected in case one of the set of bills should become lost in transit to this country. The practice of drawing foreign bills in sets is not so prevalent as in former years, except perhaps in the case of Russia. The regularity and reliability of the modern postal services have rendered such precautionary measures less necessary. In cases where a bill is duplicated the drawee will only "accept" one of the set of bills, and is, of course, only liable upon the one he accepts. The drawer is, however, liable upon each of the duplicates or triplicates in the event of their being fraudulently separated and negotiated.

Where bills are drawn in duplicate it frequently happens that the "**first**" of the set is presented to the drawee for acceptance, and that the "**second**" bears the endorsements; this occurs owing to the fact that the set of bills has become separated at some period of its existence for safety in transmission. In such a case the "first" and "second" together constitute one complete bill, and the fact of the acceptance and the endorsements appearing on separate parts of the bill is immaterial to its validity.

When a merchant abroad ships goods to this country he very frequently draws, and sells to his local Banker, a Bill of Exchange drawn upon the British merchant to whom the goods have been shipped, payable after a certain given period of time, such bill being drawn, in many cases, for the full invoice price of the goods, and, in other cases, for a portion only of the invoice price. In order to render this bill acceptable to the foreign Bank to

which it is presented for purchase, the foreign drawer attaches to the bill the "bills of lading," representing the goods shipped. These "**Bills of lading**" are the "negotiable documents," conferring the right to the ownership of the goods placed on board the vessel employed to bring them to this country. In so receiving the bill, "**with documents attached**," the Bank also secures the right to deal with the goods against which the bill has been drawn, and thus a valuable and tangible security, in addition to the drawer's personal responsibility, is obtained by the Banker when dealing with bills of this class. If, upon reaching this country, the bill is dishonoured by non-acceptance, the British agent of the foreign Banker can at once sell the goods on behalf of the foreign Banker on the British market, and the deficit then apparent (if any) can be recovered abroad by the foreign Banker from the drawer of the bill.

Such bills are termed "**Documentary bills**," and a very considerable part of the settlements for goods imported into this country is effected in this way. Where the British drawee of such a documentary bill is of established reputation the Bank holding the bill will frequently surrender to him the bills of lading (*i.e.* release to him the goods previously held as security against the bill) on receiving back the bill duly accepted; if, however, the drawee is not considered to be financially strong, the British Banker holding the bill will retain both the bill (when accepted) and the goods, releasing to the drawee portions of the latter in exchange for cash, as and when received, or permitting the drawee to redeem the bill in cash (and obtain the goods) at any time before its actual due date, subject to an allowance to him of interest on such prepayments.

The payment of a bill before it is legally due is styled "**taking up a bill under rebate**," and the allowance of interest upon such prepayments is termed "**Rebate**."

A form of foreign bill drawn in triplicate is given on the opposite page.

The period of time after the expiration of which a bill falls due is termed its "**Tenor**," and the following are some of the principal tenors employed—

"**On Demand**" means that the bill is to be paid immediately on presentation to the drawee, without the usual days of grace.

"**At Sight**" has the same significance as "on demand."

FOREIGN BILL OF EXCHANGE IN A SET.

THREE PENCE

No. 1876 Exchange for [redacted] London November 24th 1908

Ten Days after Sight of this First of Exchange (Second & Third of the same tenor and date unpaid) pay to the order of The HongKong and Shanghai Banking Corporation Ld

[redacted]

Value received. With Exchange and Bankers' charges added

To Messrs Fox, Muirhead & Co.
The Bund,
Shanghai

Heywood & Platts

[redacted]
Payable in

No. 1876 Exchange for [redacted] London November 24th 1908

Ten Days after Sight of this Second of Exchange (First & Third of the same tenor and date unpaid) pay to the order of The HongKong & Shanghai Banking Corporation Ld

[redacted]

Value received. With Exchange and Bankers' Charges added

To Messrs Fox, Muirhead & Co.
The Bund,
Shanghai

Heywood & Platts

[redacted]
Payable in

No. 1876 Exchange for [redacted] London November 24th 1908

Ten Days after Sight of this Third of Exchange (First & Second of the same tenor and date unpaid) pay to the order of The HongKong & Shanghai Banking Corporation Ld

[redacted]

Value received. With Exchange and Bankers' Charges added

To Messrs Fox, Muirhead & Co.
The Bund,
Shanghai

Heywood & Platts

[redacted]
Payable in

"**Three Months After Date**" means that the bill becomes due three months after the date appearing upon it, subject to the allowance of the three "days of grace," as already explained (page 26).*

"**At Sixty Days' Sight,**" or **Sixty Days After Sight,** means that the bill is payable sixty-three days (including the three days of grace) after it has been presented to the drawee for acceptance.

Bills payable at sight or in three to seven days are termed "*Short Exchange,*" whilst those at sixty days or upwards are called "*Long Exchange*" Bills.

As between different countries certain definite periods of time have become recognized as the customary tenor for bills drawn between such countries; in these cases the customary period of time is termed the "**Usance**" for bills drawn between those particular countries. The usance current between any two particular countries depends, of course, upon the nature of the transactions between their respective merchants, upon the average time necessary to transmit goods and letters, and upon other similar circumstances, *e.g.* the "Usance" between the United States of America and London is "sixty days after sight."

Two types of bill which, although not uncommon, are not popular in financial circles are—(1) "**Accommodation Bills**" (familiarly known as "Kites"), and (2) "**House Bills**" (picturesquely described as "pig on pork"). The former bills are merely expedients for obtaining loans, and are drawn for the accommodation of one or other, or both, of the parties thereto, and do not represent any genuine "value received." The latter are bills drawn by a firm, or limited company, on itself as between different branches or agencies. Both these forms of bill are drawn solely for the purpose of being discounted by one or other of the parties thereto in order to obtain the use of the resulting proceeds.

In contrast to the legitimate trade facilities afforded by the Bill of Exchange in its genuine form, these latter types of bill illustrate the dangers attached to instruments of credit which can be created for speculative

* The great majority of inland trade bills are dated on the first of a month, and fall due therefore on the fourth of a month. So prevalent has this practice become that, in the yearly analysis of the London Clearing House, the figures for the fourth days of each month are separately stated.

purposes and without real produce, or any genuine trading transactions, behind them.

The *ad valorem* stamp duty payable on Bills of Exchange is as follows—

When the amount due

Does not exceed £5, the stamp required is		.	1*d*.
Exceeds £5	and does not exceed £10	.	2*d*.
,, £10	,, ,, ,, £25	.	3*d*.
,, £25	,, ,, ,, £50	.	6*d*.
,, £50	,, ,, ,, £75	.	9*d*.
,, £75	,, ,, ,, £100	.	1*s*.

and 1*s*. for every £100 and every fractional part of £100 when the bill exceeds £100.

Bills of any amount payable "At sight," "On demand," "On presentation," or within "three days after date on sight," need only a penny stamp.

If the bill covers interest as well as principal, the stamp need only cover the latter.

Promissory Notes

One other form of "negotiable instrument" which is to be met with in commercial practice requires brief mention, viz. the Promissory Note.

A form of Promissory Note is given on page 193, and its nature can, to a large extent, be gathered from the wording employed in the document itself.

A Promissory Note, drawn as above, is a "negotiable instrument," and legal title to it can be acquired by a purchaser in good faith and for value, just as is the case with a Bill of Exchange.

A Promissory Note that is made payable "to order" (as above) requires endorsement in the usual manner by the person to whom it is expressed to be payable. Promissory Notes are not usually drawn "to bearer" except in the case of bank-notes; a bank-note is, in its legal aspect, a Promissory Note payable to bearer on demand issued by a Bank, and, being payable "to bearer," does not, of course, need an endorsement.

The legal position of all parties whose names appear on a Promissory Note, as regards their liability to pay it to a third person holding it, corresponds with the position of the like parties in the case of a Bill of Exchange. The "**maker**" of the Promissory Note corresponds with the "acceptor" of a Bill of Exchange, the "payee" of a

Promissory Note with the "payee" of a bill, and so forth. The rules set out above as to "dishonour," "noting," and "protest" apply also to Promissory Notes.

The employment of Promissory Notes as commercial paper in this country is restricted, and documents of this nature are rarely used in the payment of commercial obligations. Very commonly the amount covered by a Promissory Note is payable by instalments, upon each of which three days of grace are allowed.

Promissory Notes, like Bills of Exchange, require an *ad valorem* stamp based upon the amount of the note. There is one difference, however, between the rates of duty payable, viz. a Bill of Exchange payable "on demand" requires only a penny stamp whatever be the sum payable, whereas a Promissory Note, payable on demand, requires to be impressed with a stamp based upon the sum for which the note is created.

EXERCISES

12A.

CHEQUES.

1. Define a Cheque.

2. Explain why payment by Cheque has attained so great a vogue in this country. Contrast the advantages of a Cheque as compared with those of a bank-note.

3. What is the difference between a Cheque drawn "to order" and one drawn "to bearer"?

4. Give a form of Cheque drawn by V. Montgomery on the United Banking Company of Great Britain, Ltd., London for £1,046 19*s.* 4*d.* dated May 1, 1909, payable to the order of H. Miles.

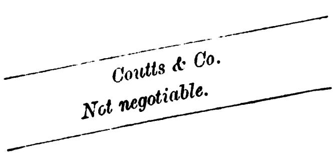
5. What is a negotiable instrument? Contrast the position of a person who has issued a document undertaking to pay a sum of money to a specified person—(1) when this document is a negotiable instrument, (2) when the document is not a negotiable instrument, assuming in each case that the document in question has been duly endorsed and has been subsequently stolen.

6. Mention five different types of negotiable instruments.

7. Is a Cheque drawn to the order of J. Jones and endorsed by the latter a negotiable instrument? Is a "Bearer" Cheque a negotiable instrument?

8. Explain the general form and uses of a "Crossed Cheque."

9. What difference exists as regards the legal effect between a Cheque crossed "Coutts & Co." and a similar Cheque crossed



10. Does the fact that the words "not negotiable" appear on a Cheque absolutely forbid its being transferred by one person to another? To what extent do these words affect transfers of Cheques between persons?

12B.

Cheques.

1. Explain the legal effect of the following crossing appearing on a Cheque—

London & Westminster Bank, Ltd.
Not negotiable
A/c Payee only.

2. What stamp is necessary upon a Cheque? Is an impressed stamp obligatory?

3. What legal steps must be immediately taken by the holder of a Cheque that is dishonoured?

4. Explain the following terms written by Bankers, upon occasion, on Cheques presented to them—
"R/D"; "N/S"; "Account closed."

5. Explain the following terms—
"Effects not cleared"; "Words and figures differ."

6. Upon the happening of what events may a Banker upon whom it is drawn refuse to honour a Cheque although sufficient money to pay it is standing to the credit of his customer's account?

7. Explain to what extent a Cheque and a Bill of Exchange possess the same characteristics, and to what extent they differ in form and use.

8. Is it possible to "cross" a Bill of Exchange or a Promissory Note?

9. Is it necessary that Cheques should invariably be drawn upon the engraved forms supplied by each Bank to its customers?

10. Give a form of Cheque which includes a form of receipt to be signed at the foot by the payee of the Cheque. Briefly discuss the advantages of Cheques of this type.

12C.

Bills of Exchange.

1. Define a Bill of Exchange.

2. Explain briefly why Bills of Exchange are used to so large an extent in the settlement of commercial transactions, stating the benefits obtained by the drawer and the drawee when using this method of discharging the obligations between them.

3. Give a form of a Bill of Exchange for £120 drawn by J. Jones & Co. of Swansea upon R. Harris of London, accepted by the latter payable at the Bank of England, London.

4. What formalities have to be gone through in the case of dis-

honour—(1) of an inland bill, (2) of a foreign bill drawn upon a merchant in this country?

5. Explain the liability—(1) of an acceptor of a bill, (2) of the drawer, (3) of the endorsers. Compare the positions of these persons as regards liability upon the bill.

6. What is meant by a "documentary" bill? Why is it frequently easier to discount a documentary bill with a Banker than it is to discount a similar bill without "documents attached"?

7. Wilson & Co. of Calcutta on May 1, 1909, sell and ship to Brown Brothers of London by ss. *Hoogly* a quantity of jute for £1,000. Against this shipment they draw a bill upon Brown Brothers at three months' date for £900, "with documents attached" in favour of the National Bank of India, and discount the bill with the National Bank of India, Calcutta, for £885. Explain the nature of this transaction, give the form of the bill, and show the entries (in pounds sterling) requisite to correctly record the matter in Wilson & Co.'s books.

8. Show the entries requisite to record in Brown Brothers' books the various transactions set forth in Question 7, including payment of the bill at maturity.

9. Explain the functions of a "Notary" so far as they relate to Bills of Exchange.

10. What is meant by the terms "usance" and "tenor" as applied to Bills of Exchange? Explain the following terms used in connection with Bills of Exchange—

"At sight,"
"On demand,"
"Sixty days after sight,"
"Three months after Date,"

What are "days of grace"?

12D.

BILLS OF EXCHANGE AND PROMISSORY NOTES.

1. What stamp duty is payable upon Inland Bills of Exchange drawn for the following sums—

£75; £100; £100 15*s.*; £2,000; £3,461 19*s.* 2*d.*

May "postage and inland revenue stamps" be used for these bills?

2. What stamp duty is payable upon the following—

(1) A Bill of Exchange for £1,000 drawn payable "on demand,"
(2) A Promissory Note for £1,000 made payable "on demand?"

3. What is a "Promissory Note"?

4. Give a form of Promissory Note for £500 signed by Owen Meredith, payable three months after date, dated June 1, 1909, to the order of Rhys Brothers.

5. Compare (1) the characteristics and (2) the modern commercial use of Promissory Notes and Bills of Exchange.

6. Is a Promissory Note a negotiable instrument? Is a Bill of Exchange a negotiable instrument? To what extent do the respective liabilities of the various parties to a Bill of Exchange compare with their liabilities if a Promissory Note had been used in the place of a Bill of Exchange?

7. Define a "bank-note." Does a Bank of England note require an endorsement?

8. Upon a Bill of Exchange being dishonoured by the acceptor, and being paid by the last endorser to the holder of the bill, what remedies has such last endorser against the other persons whose names appear on the bill?

9. Define "Accommodation Bills" and "House Bills," and explain the circumstances out of which they usually arise. Are such bills regarded by Bankers with the same degree of favour as other Bills of Exchange?

10. Why are good Bills of Exchange regarded with such favour as temporary investments by the Banks discounting them? Upon what circumstances does the Banker fix the rate of discount at which he will discount bills offered to him by a customer?

CHAPTER XIII

SINGLE ENTRY BOOK-KEEPING

It was pointed out to the student in Chapter I that no system of book-keeping can be deemed satisfactory which does not—(*a*) furnish a continuous record of transactions; (*b*) show at any time the amounts due to and from the various persons dealt with; (*c*) show clearly the values placed upon the assets and property employed in the business, together with the additions thereto, and the wastages in value which take place from time to time; and (*d*) provide the means of grouping together, at any time, the totals of the transactions recorded, so that the trading result for any given period, and the financial position at its close, may be readily ascertained.

The only method of book-keeping which can claim to fulfil these requirements satisfactorily is the Double Entry system. The Single Entry system, which it is the purpose of this present chapter to consider briefly, even at its best quite fails to satisfy the last condition set out above (*d*); for this reason, if for no other, its rejection as a satisfactory system for a business man to employ is inevitable.

The so-called system of "Single Entry" is difficult to explain to the student, as no fixed rules or scheme can be formulated where no reliable underlying theory exists, as is the case with "Double Entry" book-keeping. In fact, in almost every case where books are kept by some method other than "Double Entry," they are said to be kept upon the "Single Entry" system!

Single Entry book-keeping, or, to be more strictly accurate, Single Entry book-keeping plus a modicum of Double Entry methods, is still, unfortunately, to be found somewhat extensively employed in many small businesses where but little attention is paid to the books; and faulty though these methods undoubtedly are, they consequently need some brief examination from the student's point of view.

Pure "Single Entry" book-keeping scarcely exists in practice, the system usually met with under that name being a compound of Single and Double Entry. The former system deals only with accounts having a personal aspect, and in pure Single Entry book-keeping the only book kept would be a Ledger containing personal accounts opened for the parties with whom the trader deals; such a Ledger would, as regards form, correspond with the ordinary "Personal" Ledger as used in Double Entry book keeping. Only one entry, *i.e.* the one necessary in the personal account of the party dealt with, would be made upon the occurrence of each transaction.

It will be obvious that, in the majority of businesses using Single Entry methods, this personal Ledger would not furnish an adequate record even for the barest necessities of a small business; an infusion of Double Entry methods, albeit a partial one, is therefore added to the Single Entry system pure and simple. A Cash Book, kept as in Double Entry, is an indispensable necessity, and it is, therefore, included in this composite Single Entry system, although methodical posting from the Cash Book to the Ledger does not take place in every instance.

A Personal Ledger is kept, as in pure theoretical Single Entry. Entries in the Cash Book referring to personal accounts (*i.e.* moneys received from debtors and paid to creditors) are posted from the Cash Book to the accounts in the Personal Ledger just as is the case in Double Entry book-keeping. Cash Book entries relating to accounts other than personal ones (*e.g.* those relating to nominal accounts such as "Machinery," "Salaries," etc.) are not posted to any Ledger accounts. No "nominal" accounts whatever are kept with the exception of the Cash Book, nor, with the exception of the debtors, are any accounts kept to record the assets owned by or used in the business.

"Purchases" Books and "Sales" Books are practical necessities for any business which conducts any part of its operations upon credit, and these books are consequently included in the composite Single Entry system; the purchases and sales effected are posted to the credit or debit of the relative creditor's or debtor's personal accounts in the Ledger; but the Purchases and Sales books are rarely added up, and even in cases where the additions have been made, the total arrived at is not posted anywhere nor made use of in any practical way.

The student will have noted that the composite so-called Single Entry system thus illustrated provides the following information only with regard to the active working of the undertaking—

1. A record of Cash Receipts and Payments (Cash Book).
2. A record of dealings with persons (Ledger).
3. Records of goods bought and sold on credit ("Purchases" Book and "Sales" Book).

These records, however, are not linked together into one system, and the whole method is disjointed and incomplete.

The trading results attained by any business in which the books are kept by Single Entry can only be arrived at by the crude process of comparing the trader's present net worth with his financial position as at some previous given date; the difference between the two "net worths" representing the net gain or the net loss on trading over the selected period, according as the present "net worth" exceeds the previous "net worth" or falls short of it. The trader's "net worth," or "Capital," at any given date is arrived at by preparing a Balance Sheet, or Statement of Affairs. For this purpose the trader's books are employed as far as they go (*i.e.* for cash, debtors and creditors), and the trader's memory, or any memoranda he may possess, must be relied upon for particulars of the remainder of his Assets (*e.g.* land, buildings, carts, horses, etc.). It will be obvious that in cases where financial statements are prepared upon such inchoate information there is a considerable risk of error, and the omission of various material items through forgetfulness is by no means unlikely. If, in either of the two statements used, for the purposes of comparison, there is any inaccuracy, the Profit (or Loss) figure arrived at by means of the comparison of the two capitals shown in them is *pro tanto* incorrect. The unscientific nature and inherent weakness of this method of preparing Profit and Loss statements is thus evident. There exists also in this procedure a further serious defect, which is, however, unavoidable, in that the amount of the Profit or Loss is necessarily arrived at as a single net figure, affording no detailed information whatever as to how the trading result has arisen, and giving no useful details as to the various expenses incurred in carrying on the business; the source of the increase or decrease in the Profit or Loss for the period therefore cannot be ascertained; it

will be needless to point out that, for practical commercial purposes, statements prepared in this manner are immeasurably inferior as compared with the complete and detailed information afforded by a "Trading and Profit and Loss Account" compiled under Double Entry methods.

In Single Entry, owing to the fact that two statements are needed in order to ascertain the trading result (viz. one at the beginning of the period and one at the end), it will be obvious that the certainty of error is involved if the former of the two statements has not been properly prepared; in such cases it becomes necessary for the trader to endeavour to estimate, after a considerable lapse of time, his financial position at the previous given date. It will be needless to further emphasize the fact that trading results arrived at upon such a basis cannot, under any circumstances, be regarded as reliable.

By way of illustration two Statements are set out below, showing the method of arriving at the profits made by John Smith, whose books are kept by "Single Entry," for the year ended December 31, 1909—

JOHN SMITH.

STATEMENT OF AFFAIRS, December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors...	950	0	0	Machinery and Plant...............	520	0	0
Balance (capital) ...	655	0	0	Office Furniture....	50	0	0
				Stock on hand......	310	0	0
				Sundry Debtors....	410	0	0
				Cash at Bank.......	315	0	0
£	1,605	0	0	£	1,605	0	0

During the year 1909 J. Smith drew out of the business, on private account, £250, and at the close of the year his position was found to be as follows—

JOHN SMITH.

STATEMENT OF AFFAIRS, December 31, 1909

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Sundry Creditors...	820	0	0	Machinery and Plant...............	610	0	0
Balance (capital) ...	1,199	0	0	Office Furniture....	45	0	0
				Stock on hand......	440	0	0
				Sundry Debtors....	614	0	0
				Cash at Bank.......	310	0	0
£	2,019	0	0	£	2,019	0	0

The increase in the "Balance," or Capital, on December 31, 1909, as compared with the previous year, is £544. In order to obtain a true figure of profit the £250 drawn out of the business on private account during the year must be added to this increased "Balance," as this sum, had it been left in the business, would have increased the Assets to this extent. In this way we get at the Profit figure for the year ended December 31, 1909, viz. £544 + £250, *i.e.* £794.

That this is a clumsy and unsatisfactory method of arriving at the trading profits for the period will need no further demonstration. No details are available for comparative purposes, and there is no finality about the results arrived at, owing to the impossibility of bringing the books kept on this system to a "balance." It will be obvious to the student also that, under these circumstances, fraud is more easily committed, owing to the absence of the various salutary checks imposed by the Double Entry system.

If a trader has kept his books upon the Single Entry principle, and has followed the methods described above, so far as they extend, with a reasonable degree of exactitude, it is possible, by various adjustments, to convert his incomplete Single Entry book-keeping records for a given period into a complete Double Entry system.

In carrying out the practice of posting the personal items from the Cash Book in the Single Entry system to the Ledger we have already seen a modicum of Double Entry methods, and the conversion of the remainder of the books from the one system to the other consists of the extension of this rule.

Assuming that the Cash Book, Personal Ledger, Purchases Book and Sales Book have been kept (with, possibly, Returns Books and Bill Books), the process of conversion from Single Entry to Double Entry proceeds upon the following lines—

1. A Nominal Ledger is procured, and the balances appearing in the Statement of Affairs prepared at the commencement of the selected period are entered in it, with the exception of the cash, debtors and creditors, the necessary records of which already appear in the Cash Book and Personal Ledger.

The opening balances are, in this manner, brought into line with Double Entry principles.

2. In the Single Entry book-keeping which has already

been accomplished, such items in the Cash Book as relate to personal accounts have been duly posted in the Personal Ledger. It remains, therefore, to go carefully through the Cash Book and to post to appropriate accounts to be opened in the Nominal Ledger all the "impersonal" Cash Book items. The Cash Book thus becomes an ordinary Double Entry Cash Book, and the items in it are duly posted according to Double Entry methods.

3. In the Single Entry work already carried out, the Purchases Book, Sales Book (and, possibly, the Returns and Bill Books, if the same have been kept) have been entered up and posted to the Personal Ledger accounts kept for the persons with whom the transactions were effected. These books may or may not have been added up; if not already completed, the additions must be made, and the totals thus arrived at must be posted in the Nominal Ledger to appropriate accounts, just as is the case in ordinary Double Entry book-keeping, *e.g.* the Sales Book must be added up and the total of the sales for the period posted to the credit of the "Sales Account," and so on. In this manner the Double Entry for the sales, purchases, etc., is duly achieved, and these books are consequently also brought into harmony with Double Entry principles.

4. Many isolated items will probably be found in the "Single Entry" Personal Ledger for which no compensating posting has been effected, such as "discount" allowed and received, "returns" inwards and outwards, "allowances," "transfers" from one account to another, and so forth. Before any "balance" of the books can be arrived at, it is necessary that the compensating Double Entry for all these items shall be completed. Items of this class must, therefore, be carefully picked out from the various accounts in the Ledger, and collected and analyzed into totals upon sheets of paper according to their nature (*e.g.* all discounts which have been allowed must be picked out from the Ledger upon a sheet headed "Discounts allowed"). The total of each class of item, when ascertained, must be posted to its appropriate account in the Ledger, and upon the correct side of that account, *e.g.* the total of "discounts allowed," arrived at by the process of extraction from the Ledger described above, must be posted to the debit of the "Discount Account." If preferred, these entries can also, of course, be passed through a journal if it is desired to approximate to Double Entry book-keeping in every detail.

5. Any other entries appearing in the "Single Entry" books, and not previously dealt with under one or other of the above rules, must be brought into Double Entry semblance in like manner.

The foregoing measures having been carried through, it will be recognized that their combined effect is to complete the Double Entry in every case, starting with the opening balances and continuing through every transaction to the close of the year under review. A complete Double Entry system having thus been brought into existence where only a Single Entry system existed previously, a Trial Balance can now be prepared, followed by a Balance Sheet and a Profit and Loss Account prepared in the ordinary way.

The "Single Entry" system of book-keeping must not be confused by the student with the "Single Account" method of preparing a Balance Sheet. Examination candidates not infrequently confuse the two terms, which are by no means synonymous.

As the student will learn at a later stage of his career, Balance Sheets are sometimes prepared, in accordance with the requirements of certain statutory forms, in two or more sections, and the name given to this method of accounting is "the Double Account System." In order to distinguish this "Double Account" Balance Sheet from the common form of Balance Sheet prepared in one single statement (like those illustrated on page 122), the term "Single Account System" is sometimes employed; but this designation has no reference whatever to book-keeping by Single Entry methods. As has been previously indicated, a proper Balance Sheet prepared on the "Single Account System" almost invariably pre-supposes book-keeping by Double Entry.

EXERCISES.

13A.

1. What is understood by pure Single Entry book-keeping? Is it ever found in practice?

2. What form of book-keeping in modern use goes by the name of "Single Entry book-keeping"? Is this designation strictly correct?

3. Explain to what extent (if any) the following books are used in modern Single Entry book-keeping—

Cash Book,
Sales Book,
Bills Receivable Book,
Returns Book.

4. What are (1) the disadvantages, (2) the advantages, of Single Entry book-keeping as compared with the Double Entry system?

5. How can a trader who keeps his books by "Single Entry" ascertain his profits for a given period?

6. Compare, from the standpoint of efficiency, the methods of ascertaining profits under Single Entry and Double Entry bock-keeping principles.

7. Explain how a trader, having kept his books accurately upon Single Entry principles (as far as that system extends) can convert his Single Entry book-keeping for a given period into Double Entry book-keeping.

8. Discuss the following proposition—"The accuracy of profits ascertained from books kept upon Single Entry principles depends to so large an extent upon the trader's memory that the Single Entry system of arriving at profits can only be regarded as most unreliable."

9. Discuss the following statement—"Book-keeping by Double Entry is worthy of being called a *system;* book-keeping by Single Entry amounts to nothing more than a series of disconnected memoranda."

10. Differentiate between the terms "Single Entry System" and "Single Account System" as used in book-keeping.

13B.

The financial position of John Higgins, who commenced business on January 1, 1909, was as follows—

	£	s.	d.
Cash at the Bank	412	10	0
Stock of goods on hand	1,009	0	0
Plant and machinery	80	0	0
Debtor—O. Jones	124	0	0
Creditor—V. Murray	609	5	0

The following transactions took place during January—

1909.			£	s.	d.
Jan.	2.	Drew from the Bank for office cash	10	0	0
,,	2.	Sold to O. Jones goods on credit	16	0	0
,,	4.	Bought goods from V. Murray (on credit)	139	5	1
,,	5.	Received from O. Jones by Cheque	135	0	0
		Allowed him discount	5	0	0
,,	6.	Drew Cheque for sundry office expenses	4	16	7
,,	6.	Paid from office cash, salaries	3	10	6
,,	7.	Bought goods from V. Murray (on credit)	6	5	4
,,	7.	Sold to Wilkinson & Co. goods (on credit)	532	16	9
,,	8.	Received from Wilkinson & Co. Cheque	530	0	0
,,	8.	Received from Wilkinson & Co. goods returned as unsuitable, invoiced to them at	2	16	9
,,	9.	Paid V. Murray by Cheque on account	600	0	0
,,	11.	Paid from office cash for stationery and postage stamps	1	10	10

		£	s.	d.
1909.				
Jan. 12.	Sold to Morrison & Co. goods (on credit)	346	19	3
„ 13.	Paid V. Murray by Cheque further on account	100	0	0

Note.—All cheques received are banked on the same day, and all payments are made by Cheque unless otherwise stated.

From the above details write up John Higgins's books *by Single Entry*, and, including the matters set out hereunder, prepare statements showing John Higgins's position as on January 13, 1909, and the profit made to that date.

The stock on hand as on January 13, 1909, was valued at £362 13*s.* 4*d.* Plant and machinery on hand was valued on January 13, 1909, at £79. The stock of stationery and postage stamps on hand on January 13, 1909, is to be valued at £1 2*s.* 6*d.*

13c.

Richard Hyston, who is a trader in a small way of business, keeps his books by Single Entry, but now finds that it is necessary for him to ascertain his profit for the period December 31, 1905—December 31, 1908, in order to obtain reduction of an over-assessment which has been made upon him for Income Tax.

He furnishes the following details as to his position on December 31, 1905—

	£	s.	d.
Balance at Bank to his credit (as per pass-book)	94	9	6
Stock of goods on hand estimated at . .	200	0	0
Shop fixtures and fittings (valued at cost) .	45	0	0
Sundry debtors	132	5	9
Sundry creditors	314	16	10

He also furnishes the following details as to his position on December 31, 1908—

	£	s.	d.
Overdrawn balance at Bank	10	5	9
Stock of goods on hand	392	1	5
Shop fixtures and fittings valued at	30	0	0
Sundry debtors	342	1	9
Sundry creditors	475	11	9

During the three years he has withdrawn from the business in cash £12 on the last day of each month for his own private expenses.

Prepare—(1) Richard Hyston's Balance Sheet as on December 31, 1908.

(2) A statement showing what profit has been made for the period December 31, 1905—December 31, 1908.

13d.

Upon being questioned the Mr. Hyston mentioned in the preceding exercise (c) admits that his memory is not always reliable, and, upon further investigation, the following facts are brought to light in regard to the statements furnished by him in the preceding question—

A. In the statement of the position as on December 31, 1905:
  1. Stock of goods on hand should have been £210.
  2. Sundry creditors should have been £319 17*s.* 5*d.*
  3. The value of a cart and horse (£35) owned by Mr. Hystor has been entirely omitted.

B. In the statement of the position as on December 31, 1908:
  1. Shop fittings and fixtures are worth only £20, not £30 as stated.
  2. Of the sundry debtors (£342 1*s.* 9*d.*) debts amounting to £25 1*s.* 6*d.* are absolutely bad; in addition to this a reserve of 50 per cent. of their face value must be provided on debts amounting to £22 10*s.* 4*d.*; the remainder of the book debts are good.
  3. The value of the cart and horse mentioned above may now be taken at £30, and an additional horse bought and paid for during the three years, and estimated to be worth £25, must be taken into account as on December 31, 1908.
  4. During the six months ended December 31, 1907, R. Hyston's drawings were at the rate of £14 per month instead of £12 per month as previously stated; the figure of £12 per month holds good for all the other months during the three years under review.
  5. On December 31, 1908, the sum of £3 4*s.* 9*d.* was in the shop till, but was omitted from the statement furnished, and, in addition, the till contained an I.O.U. for £1 lent to a carman, which sum had not been included in the sundry debtors.

From the foregoing particulars prepare amended statements showing (1) R. Hyston's position as on December 31, 1908, and (2) the net profit made during the three years December 31, 1905—December 31, 1908.

Answers.—13B. Net Profit, £86 6*s.* 9*d.*
13C. Net Profit for the three years, £553 7*s.* 3*d.*
13D. Net Profit for the three years, £538 5*s.* 11*d.*

CHAPTER XIV

Consignment Accounts

CURRENT ACCOUNTS BETWEEN MERCHANTS

A trader frequently ships goods to an agent abroad, for sale by the latter on his (the trader's) account; such shipments of goods are, in commercial parlance, termed "**Consignments.**"

In cases where goods are so despatched they do not become the property of the agent to whom they are consigned for sale. There is no question of a sale having been effected as between the trader and his agent, and it is only when the agent has actually sold the goods on the trader's behalf that they cease to be the latter's property. A *pro forma* "invoice" is sometimes sent by the trader to the agent upon the despatch to him of the goods, but this practice is merely formal, its object being to give the agent instructions as to the minimum prices at which he may sell the goods, and the position, from the accounting point of view, is not affected thereby.

In return for his services in disposing of the goods consigned to him, the agent is remunerated by means of a "commission," the amount of which is usually based upon the money product obtained by means of the sale of the goods consigned. Since the agent sells the goods only *as agent* on behalf of the shipper and not upon his own account, it follows that, in connection with any sales made by his agent on credit, the shipper must run all the attendant risks and must bear the loss arising out of insolvency on the part of any purchaser, should it occur, even though he may not even know the name of such purchaser. In order to avoid losses of this description it is frequently arranged between the home trader (the "**Consignor**") and the agent to whom goods are sent (the "**Consignee**") that any losses arising in consequence of the subsequent insolvency of purchasers shall be borne by the consignee instead of by the consignor—the rate of commission payable in these cases being proportionately higher. This arrangement is termed "**Del Credere.**" The "Del Credere" commission is frequently shown

separately from, and in addition to, the ordinary "selling" commission.

Consignments despatched by a home trader to an agent for sale on his (the trader's) behalf are, as regards the home trader's books, termed "**Consignments Outwards**"; in the books of the agent they are called "**Consignments Inwards**," and obviously the book-keeping methods of dealing with a consignment require explanation both as regards the books of the "Consignor" and the books of the "Consignee."

In thus consigning goods to an agent abroad, the consignor is temporarily deprived of a portion of his working capital, until such time, in fact, as the proceeds obtained by the sale of the goods are received by him. If the goods consigned are of the consignor's own manufacture, they represent money already expended by him in raw material and wages, and, if purchased by him in a manufactured state, they represent a liability which, in due course, he will have to meet.

In order to avoid the inconvenience thus caused to the consignor the following procedure is frequently resorted to, viz. the consignor draws upon the consignee a Bill of Exchange, due some months ahead, in anticipation of the proceeds of the consignment; the shipper attaches to this Bill of Exchange the "**Bills of Lading**" (*i. e.* the documents of title issued by the shipping company in exchange for the goods), and sells ("discounts") the Bill of Exchange (with the Bills of Lading attached thereto as security) to a banker having a branch, or agency, in the consignee's city. This Bill of Exchange is usually drawn for a sum considerably less than the real value of the goods, in order that the banker who buys it and the consignee who subsequently pays it may be amply secured.

The banker who has bought a bill of this description sends it to his agent in the consignee's city, and the consignee can thereupon secure the liberation of the whole of the goods on paying the amount of the bill (under a "rebate allowance" for prepayment); or he has the option of taking delivery of the goods piecemeal on paying proportionate instalments of the bill; or, if the consignee be a trader of undoubted financial stability, the local bank holding the bill will frequently deliver to him the Bills of Lading in exchange for his acceptance alone written on the bill.

When the goods have been sold and the consignee in due course remits the proceeds of the consignment to his

principal, he, of course, deducts the amount of any bills he may have accepted against such proceeds.

The Consignor's Books

When goods are despatched "on consignment" they must not be debited to the consignee's Personal Account, for, as has been previously explained, he is not in the position of a debtor to the consignor until the goods consigned have been actually sold by him.

The goods comprised in the consignment should be debited, at cost * price, to a special Ledger account opened for the particular consignment headed "Consignment to A.B.," the name of the agent being inserted. In businesses where consignments are numerous a "**Consignment Ledger**" is usually kept. To the account opened for each individual consignment should be debited all the charges, *e.g.* freight, insurance, duty, etc., disbursed by the consignor in connection with the shipment of the goods. The net proceeds of the goods, as and when they are sold by the consignee, are credited to the Consignment Account and debited to the Personal Account of the consignee, because he naturally becomes responsible for the resulting proceeds immediately he has sold the goods. By the term "net proceeds" used in this connection is meant the gross selling price of the goods less all the charges disbursed by the consignee, and, of course, less the consignee's commission. A statement termed an "**Account Sales**" is rendered by the consignee to the consignor (sometimes as and when parcels of the goods have been sold, and sometimes upon the conclusion of the transaction), in which these details are set forth. A specimen "Account Sales" relating to the consignment used in this chapter, as an example, will be found on p. 218. Any remittances which have been received from the consignee are credited to his Personal Account in the ordinary way, and any drafts which have been drawn upon the consignee in anticipation of the proceeds of the consignment are similarly credited in the same account.

When preparing the annual accounts of the consignor, such consignment accounts as may remain open at the date upon which the books are balanced, and which represent unrealized goods "on consignment," should be brought into the accounts as Assets at the *cost price only* of such goods, together with any charges paid thereon to date.

* The goods are taken at cost because, until sold, they merely represent so much stock transferred from one place to another.

In cases where the goods represented by the consignment are partly sold, each account must be treated upon its merits. The charges paid, if they cover the whole of the consignment, will need careful apportionment as between the goods sold and those which remain unsold.

The method of the treatment of consignments in the consignor's books as described above is illustrated in the subjoined example—

Example.—On January 1, 1909, Wilson Bros. ship upon consignment to Denniston & Co., of Durban, for sale by the latter, upon Wilson & Co.'s account, 50 cases of Manchester goods invoiced *pro forma* at £15 10*s.* per case. A commission of 2½ per cent. is payable on sales, plus an additional charge of 1 per cent. upon sales for *Del Credere* commission.

Wilson Bros. pay in connection with this consignment: Freight £24 10*s.* and Insurance £5, and draw on Denniston & Co. at three months' sight for £500 against the shipment, selling the bill to the Natal Bank.

Denniston & Co. sell for cash on March 24, 20 cases of goods at £22 6*s.* per case; on April 8, 21 cases at £21 per case; and on the 9th of April, 9 cases at £25 per case. They accept Wilson Bros.' draft on February 1, 1909, and obtain immediate delivery of the goods from the Bank. They forward to Wilson Bros. an "Account Sales" on April 15, deducting therein the commission due to them at the agreed rates; their disbursements on account of the consignment are: Landing Charges, £4; Storage, Insurance, and Sundries, £14 5*s.* They remit a Bank Draft for £554 16*s.* 7*d.* to close the transaction, the question of interest being waived on each side.

The foregoing transactions are shown as they would appear in the books of Wilson Bros.; at the end of the section dealing with the consignee's accounts the transactions are again shown as they would appear in Denniston & Co.'s books.

ACCOUNT SALES of 50 Cases of Manchester Goods received from WILSON BROS., London, per ss. *Doric Castle*.

Mark.		£	s.	d.	£	s.	d.
	Proceeds 20 cases goods at £22 6 0	446	0	0			
	„ 21 „ „ £21 0 0	441	0	0			
	„ 9 „ „ £25 0 0	225	0	0	1,112	0	0
WBL / 37c	*Less*—						
	Landing charges………………	4	0	0			
	Storage, insurance, and sundries	14	5	0			
	Commission, 2½ per cent. on £1,112	27	16	0			
	Del Credere, 1 per cent. on £1,112	11	2	5	57	3	5
					£ 1,054	16	7

Note.—Draft £500 accepted against above consignment, Feb. 1, 1909, due May 4, 1909.

E. & O. E.
Durban, April 15, 1909.
Denniston & Co.

WILSON BROS.' LEDGER

Dr. Consignment to Denniston & Co., Durban Cr.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1909.						1909.					
Jan. 1	To 50 cases of Manchester goods invoiced at cost, £15 10s. per case...		775	0	0	May 15	By Denniston & Co., net proceeds of consignment		1,054	16	7
" 1	" Cash, Freight on above........		24	10	0						
" 1	" Cash, Insurance.............		5	0	0						
June 30	" Profit on consignment transferred to Profit and Loss Account		250	6	7						
		£	1,054	16	7			£	1,054	16	7

Dr. Denniston & Co., Durban Cr.

Date	Particulars		£	s.	d.	Date	Particulars		£	s.	d.
1909.						1909.					
May 15	To Net Proceeds of consignment of 50 cases of Manchester goods		1,054	16	7	Jan. 1	By Draft at 3 months' sight drawn against proceeds of consignment...		500	0	0
						May 15	" Cash (Bank Draft)............		554	16	7
		£	1,054	16	7			£	1,054	16	7

Consignee's Books

In the books of the consignee the method of recording the history of the consignment is comparatively simple.

Upon receipt of the consignment and the *pro forma* invoice accompanying it, no entry in the books of account is made, inasmuch as the goods do not become at any time the property of the consignee, and he is only concerned therefore in accounting, in due course, for the proceeds, as and when obtained by the sale of the goods. An entry recording the receipt of the consignment and the various details regarding it is made in a Memorandum or Statement book kept by the consignee. Books of this description are usually termed "**Consignments Book Inwards**" or "**Outwards**," according as the entries recorded therein affect the keeper of the book.

Any drafts which may be drawn by the consignor against the proceeds of the consignment and accepted by the consignee are debited by the latter in the Personal Current Account kept by the consignee under the name of the consignor.

All the charges disbursed by the consignee on the consignor's behalf in connection with the consignment are also debited to this account. The proceeds of the consignment, whether sold for cash or upon credit, are credited to the Personal Account of the consignor, the corresponding debit being to "Cash," or to the Personal Account of the purchaser of the goods, according as the sales have been for cash or upon credit. Any payments or remittances of the resulting proceeds made by the consignee to or on account of the consignor are debited to the latter's account.

The above principles are illustrated in the subjoined example, wherein the transactions appearing in Denniston & Co.'s (the consignee's) books relative to the consignment set out previously in this chapter are passed through their books, their account with Wilson Bros. (the consignors) being shown.

DENNISTON & CO.'S LEDGER

Wilson Bros., London (*re* consignment ex ss. *Doric Castle*)

Dr. **Cr.**

1909.			£	*s.*	*d.*	1909.			£	*s.*	*d.*
Feb. 1	To Draft in favour of Natal Bank accepted		500	0	0	Mar. 24	By Proceeds of 20 cases of goods sold for cash at £22		446	0	0
,, 4	,, Landing charges		4	0	0	Apl. 8	,, Proceeds of 21 cases at £21		441	0	0
Mar. 20	,, Storage, insurance, and sundries........		14	5	0	,, 9	,, Proceeds of 9 cases at £25		225	0	0
Apl. 15	,, Commission...		27	16	0						
,, 15	,, *Del Credere* commission ...		11	2	5						
,, 15	,, Cash, Bank Draft drawn on Natal Bank, Ltd., London		554	16	7						
		£	1,112	0	0			£	1,112	0	0

The following terms are frequently used in preparing Account Sales in connection with quantities or parcels of goods, viz. "Gross Weight," "Tare" and "Net Weight," and it may be useful to explain them here briefly—

The "**Gross Weight**" or "Gross" is the weight of goods or commodities as packed, *i. e.* including the weight of the cask, crate, box or material in which they are contained.

"**Tare**" signifies the weight of the crate, cask, box or material containing the goods if weighed separately from the goods themselves.

The "**Net Weight**" or "Net" is obtained by deducting the "Tare" from the "Gross Weight," and represents the actual weight of the goods themselves.

E. g. if in connection with a consignment of coffee the weights are thus stated, viz. Gross, 100 cwt.; Tare, 3 cwt.; Net, 97 cwt., the interpretation is that 97 cwt. of coffee were contained in a package weighing 3 cwt., the total weight of the goods and packing thus being 100 cwt.

In dealing with goods sold on consignment the student should always be careful to work out any requisite figure of proceeds on the basis of the "Net" weight, as obviously the purchaser cannot be expected to pay for comparatively inexpensive packing materials at the prices of valuable goods. The value of packages is usually ignored in examination questions.

Current Accounts between Merchants

In cases where considerable balances may, from time to time, be owing as between merchants and their foreign agents, it is customary for interest to be allowed by the one party to the other upon the current balance of account between them. In this manner the party who is the creditor in the transaction obtains some compensation for the temporary loss of the use of the moneys allowed to remain by him in his debtor's hands, and *vice versa*.

Many methods of charging this interest exist, but, owing to considerations of space, it is deemed to be necessary only to illustrate here one of the most usual systems.

It will be remembered that the interest for any given time upon any sum of money may be calculated according to the following formula—

$$\text{Required Interest} = \frac{\text{Principal} \times \text{number of days} \times \text{rate per cent. per annum}}{100 \times 365}$$

In working out the total interest upon a number of consecutive daily (or other periodical) balances it is sufficient to multiply each balance (Principal) by the

period of time for which it exists unaltered, and to add together the products so obtained; the multiplication of this total of products by the rate per cent. allowed, and its subsequent division by 36,500, will produce one figure of interest in sterling, and this resulting figure represents the total interest upon the whole of the successive balances.

This method of calculating interest upon the current balance of an "Account Current" is customary among bankers, in whose Ledgers extra columns are provided for (1) the insertion of the daily or other periodical balances, (2) the number of days for which such balance has remained unchanged, and (3) the product obtained by multiplying together the number of pounds in the balance and the number of days. Column No. 3 (Product column) is added at the end of any given period, and by multiplying this total by the rate per cent. per annum allowed, and by its division by 36,500, a net figure of interest is obtained which represents the necessary allowance to the customer.

This system may also be adopted as between merchants, but it obviously necessitates the extension of each daily balance on a separate statement. It is customary, therefore, in commercial practice, to calculate interest in a way which may, at first sight, appear more cumbersome, but which produces the same result without involving the tedious extraction of daily balances. Instead of each daily balance being multiplied by the number of days for which it remains unchanged, each item on either side of the account is multiplied by the number of days elapsing between the date of its happening and the starting date of the account (or the date up to which interest was last calculated upon the account being ruled off and balanced). The total of the products thus obtained on the Debit side of the account is offset against the total of the products obtained on the Credit side of the account, and the difference between the two total products is subjected to the same process of multiplication by the rate per cent. per annum and the division by 36,500 as in the "daily balance" method explained above. The net figure of interest so obtained in sterling, appearing on the Debit or Credit side according as the case may be, is the net amount to be allowed or charged to the customer by the merchant in whose books the account in question is running.

Dr. **WILSON, BROWN & CO., London, in account with MERRILIES BROS., Calcutta.** Cr.

Date.	Details.	Folio.	£	s.	d.	Days.	Product.	Date.	Details.	Folio.	£	s.	d.	Days.	Product.
1909.								1909.							
April 30	To Balance brought down	✓	3,000	0	0			May 25	By Cash	24	2,000	0	0	25	50,000
May 3	,, Goods	36	400	10	0	3	1,200	,, 26	,, Returns	361	100	9	0	26	2,600
June 30	,, Interest $\left(£\frac{105,400 \times 5}{365 \times 100}\right)$ = £14 8s. 10d.	298	14	8	10		105,400	,, 27	,, Goods	79	700	6	0	27	18,900
								June 24	,, Cash	32	250	0	0	55	13,750
								,, 30	,, Balance, £349 15s. 0d.					61	21,350
								,, 30	,, Balance carried down	✓	364	3	10		
		£	3,414	18	10		106,600			£	3,414	18	10		106,600
1909.															
June 30	To Balance brought down	✓	364	3	10										

A specimen form of an account current between two merchants, whereon interest is running at 5 per cent. per annum, appears on p. 223. It must be noted that in such accounts balances are brought down under the date of the closing day of each period (*e.g.* April 30 and June 30), and not, according to the more customary usage, under the date of the opening day of each succeeding period (*e.g.* May 1 and July 1). This precaution is necessary in order that a day's interest may not be omitted.

EXERCISES

14A.

1. Explain briefly the nature, objects and methods customary in connection with "consignments" of goods from one merchant to another.
2. Differentiate between "Sales" and "Consignments," explaining the principal features of each.
3. What is a "*Del Credere*" commission? What benefit accrues to the consignor through its payment?
4. What is an "Account Sales"?
5. What is the legal position of a consignee as regards goods shipped to him "on consignment"? Are such goods his property at any time during the transaction?
6. Explain what is meant by a consignor "drawing a bill upon his consignee against the goods consigned." What happens to such a bill, and wherein does the consignor derive benefit from the procedure?
7. Explain the entries made by a consignee in his books—
   (*a*) On the receipt of the consignment,
   (*b*) On the sale of a portion of it,
   (*c*) On remitting to the consignor the net proceeds of the sale of the goods.
8. How should consignment accounts which are still open at the date of balancing be dealt with in the books of a consignor?
9. Explain the working of a current account between merchants in which interest is to be worked on the account from day to day.
10. Explain the terms "Gross Weight," "Tare," and "Net Weight" as used in an account sales.

14B.

Arabi Kaid & Co. of Smyrna forward to H. Hope & Co. of London a consignment of 100 half bales of coffee marked "A. K. & Co." for sale on commission (including Del Credere) of $1\frac{1}{2}$ per cent. on the proceeds.

The weights of the coffee were—

Gross	154 cwt. 3 qrs. 14 lb.
Tare	8 cwt. 0 qrs. 14 lb.

The coffee was sold at 61*s.* per cwt., less 1 per cent. discount for cash. Hope & Co.'s charges were as follows—

	£	s.	d.
Brokerage, ½ per cent.	2	4	10
Landing Charges	5	9	10
Fire Insurance	2	10	0
Rent	10	9	1
Marine Insurance	4	2	8

Commission and *Del Credere*, 1½ per cent. on Sales.

From the above particulars prepare the Account Sales to be rendered under date June 1, 1909, by Hope & Co. to Arabi Kaid & Co.

14c.

Pollock Bros. of Swansea purchased and consigned on June 1, 1909, 2,000 tons of Welsh Steam Coal to Gremaud Frères of Marseilles, per ss. *Louise*, the coal being invoiced at 10*s.* per ton, this being the cost of the coal to Pollock Bros.

Against this consignment Pollock Bros. drew a draft at thirty days' date upon Gremaud Frères for £500, the draft being dated June 2, 1909. This draft was sold to the Comptoir National d'Escompte de Paris in London for £498.

Pollock Bros. paid the following charges on the consignment—

	£	s.	d.
Freight, 2,000 tons at 1*s.* per ton	100	0	0
Insurance, £1,100 at 2*s.* per cent.	1	2	0
Loading and dock charges at Swansea	10	4	9
Railway charges to Swansea, 6*d.* per ton	50	0	0

Gremaud Frères received the consignment of coal on June 8 and effected the following sales for cash—

	frs.
1,000 tons at frs. 20 per ton	20,000
1,000 tons at frs. 21 per ton	21,000
frs.	41,000

Gremaud Frères rendered on June 10 an Account Sales for the above proceeds, including the following charges—

	frs.
Dock charges at Marseilles	625
Sundry Disbursements	555
Gremaud Frères' commission on sales, 2 per cent.	820
frs.	2,000

Gremaud Frères accepted Pollock Bros.' draft for the equivalent in francs of £500, *i. e.* frs. 12,500, and remitted a draft on London for the equivalent of the net proceeds of the consignment after deducting the £500 draft, as under—

	frs.
Gross proceeds of consignment	41,000
Deduct charges	2,000
	39,000
Deduct £500 acceptance	12,500
Draft on London obtained for £1,060, equivalent of	frs. 26,500

Note.—Twenty-five francs have been taken as the equivalent of £1.

Show the transactions relating to the foregoing consignment—
1. In the books of Pollock Bros. (in pounds sterling).
2. In the books of Gremaud Frères (in francs).

14D.

Show the following transactions in the form of an Account Current bearing interest at 5 per cent. per annum, to be rendered by Murphy & Co. of London, to Gellibrand Bros. of Cape Town, made up to June 30, 1909.

		£	*s.*	*d.*
1908. Dec. 31.	Debit Balance owing to Murphy & Co. by Gellibrand Bros.	1,000	0	0
1909. Jan. 15.	Murphy & Co. paid R. Jones for account of Gellibrand Bros	200	0	0
Mar. 24.	Gellibrand Bros. remitted Murphy & Co. by Bank Draft	1,000	0	0
April 15.	Murphy & Co. sold Gellibrand Bros. goods invoiced at	192	0	0
May 3.	Murphy & Co. paid on account of Gellibrand Bros.—			
	To W. Herries	10	0	0
	,, R. Herries	10	0	0
	,, Mrs. H. Herries	50	0	0
June 9.	Murphy & Co. paid on account of Gellibrand Bros.—			
	To the Northern Weaving Co., Ltd.	329	0	0
	,, Union Castle Mail SS. Co.	38	0	0
June 11.	Murphy & Co. received a parcel of bullion remitted to them by Gellibrand Bros. for sale on the latter's account	1,029	0	0
	And paid assaying charges thereon	4	0	0

Answers.—

14B. Net proceeds after deducting all charges and commission, £411 11*s.* 6*d.*

14C. Pollock & Co.'s books:—Net Profit on consignment, £398 13*s.* 3*d.* Totals of Consignment Account, £1,560 0*s.* 0*d.* Gremaud Frères:—Totals of Consignment Account, 41,000 frs.

14D. Credit Balance of Account at June 30, 1909, £179 2*s.* 9*d.* Interest, debit, £16 17*s.* 3*d.*

CHAPTER XV

PARTNERSHIP ACCOUNTS

The student may probably have noted that the accounts previously illustrated in this treatise relate, for the most part, to cases where the undertaking is the sole property of one person trading on his own account.

In small business undertakings the "sole trader" is generally the only person who has any stake in the concern; on the other hand, large private mercantile businesses more frequently belong to a number of joint proprietors, trading in common with a view to mutual profit, and jointly sharing in the direction of the undertaking. This trading relation is known as a **Partnership**, and the joint owners are known as **Partners**.

The Partnership Act, 1890, defines partnership as being "the relation which subsists between persons carrying on a business in common with a view of profit."

Under the provisions of the Companies (Consolidation) Act, 1908, section 1, no partnership may be formed consisting of more than *twenty* persons, unless it is registered as a company. In the case of banks the partners may not exceed *ten* in number, unless registered under the Companies Acts.

The accounts of a business which is the property of a partnership naturally differ, as regards the capital accounts and the division of profits, from the accounts of a sole trader, although, as regards the detailed transactions recording the trading side of the business (*i.e.* the purchases, sales, expenses, etc.), they are identical with those of a sole trader, as already described in previous chapters.

The main characteristics, so far as they concern us here, of an ordinary partnership are as follows—

1. All the partners in a firm are individually liable for the whole of the partnership debts.

   Note.—Partnerships in which the liability of one or more of the members may be limited to a certain specified sum can now be formed

under the "Limited Partnership Act, 1908," but are not very frequently met with.

2. All partners contribute, as a rule, "Capital" to the common fund, although their contributions may, and frequently do, differ in amount.
3. All partners share in profits and share the losses; the proportions in which they divide may differ or vary as between different partners, and may or may not be calculated according to the proportionate amount of the capital contributed by each partner.
4. All partners are entitled, in the absence of any agreement to the contrary, to share in the direction of the undertaking, but are not entitled, in the absence of a special agreement, to any salary for so acting.

All these matters, and many others which do not so directly concern us for present purposes, are usually set out in detail in an agreement, which is called the **Deed of Partnership**; this deed is signed by all the Partners constituting the firm, and forms the basis of their rights, obligations and duties as between themselves.

Every properly-drawn Deed of Partnership contains clauses dealing with the undermentioned matters affecting the partnership accounts—

(*a*) The Capital arrangements of the partnership, the proportionate shares in which it is to be contributed, and any agreement there may be as to whether such contributions are to be "fixed" in amount.

(*b*) The agreed arrangements as to the drawings of the Partners.

(*c*) The agreed division of profits and losses, both of a "Capital" nature and otherwise.

(*d*) The terms agreed upon as to the allowance of Interest upon Capital (if any) and the charging of Interest upon Drawings.

(*e*) Partners' salaries (if any).

(*f*) The agreement arrived at as to Goodwill (if any), especially in case of retirement or death.

(*g*) Provision for the preparation of proper annual accounts.

In cases of dispute, where no mutual agreement can be arrived at by the Partners upon any points which are inadequately covered by the Deed of Partnership, the

provisions of the **Partnership Act, 1890**, and the legal decisions arising thereunder, will be applied to settle the matters at issue. In cases of dispute the appointment of an arbitrator, if agreed to by all parties, is usually the best course to pursue.

In cases where there is no Partnership Deed, and where no mutual agreement can be arrived at between the partners, the Partnership Act, 1890 (sec. 24), provides that—

1. Partners are entitled to share equally in the capital and profits and must contribute equally to the losses, whether of Capital or otherwise.
2. Partners are entitled to receive out of the undertaking interest at the rate of 5 per cent. per annum on any advances they may make *apart* from Capital.
3. Partners are not entitled to be credited with interest on the balances of their Capital Accounts prior to the ascertainment of profits.
4. Partners are not entitled to any salary for acting in the partnership business.

The Capital of a partnership, in almost every instance, is contributed by more than one individual, and it is consequently necessary to recognize this fact in the partnership books. The combined Capitals of all the partners in a partnership correspond to the single Capital Account of a sole trader in that they both express and represent the excess of the Assets of the business over its Liabilities; it must, however, be pointed out that the liability for business debts either in the case of a sole trader, or in that of an individual partner, extends beyond the amount of whatever Capital he may have embarked in the business, and that the whole of his private property (if any) is subject to the satisfaction of his business obligations.

The amount of a sole trader's Capital is, as has been already explained, credited in his books to his "Capital Account." In the case of a partnership the Capital of each individual partner is credited in an analogous manner to such partner's separate Capital Account, and he is, for book-keeping purposes, regarded as a creditor of the firm for the amount of such capital. At the end of each trading period the net profit (or the net loss) as shown by the firm's Profit and Loss Account is divided among the partners in the proportions prescribed by the partnership agree-

ment (or in default of any such agreement in equal shares among them), and the share of each partner under such division is transferred to his Capital Account, either to the credit of the account in the case of a profit, or to its debit in the case of a loss.

It is customary for partners to be authorized, under their deed of partnership, to withdraw agreed yearly sums from the business by instalments, at such periodical intervals as may be agreed upon, in anticipation of the shares of profits to which they will be entitled when the firm's annual accounts are prepared in due course. These periodical withdrawals are termed **Drawings**.

Partners' drawings are debited in some cases direct to the partners' Capital Accounts as they occur; but it is preferable, and far more usual, to debit them, immediately upon their occurrence, to a **Drawing Account** opened in the Ledger for each individual partner. The total of the debits to any partner's Drawing Account, at any given date, represents the total amount drawn by that particular partner since the last date upon which the books were balanced. At the close of the trading period the share of profits to which any particular partner is entitled should be credited direct to his Capital Account, to the debit of which account the total of his drawings (as set out in his "Drawing Account") may then be transferred. Under this method the Drawing Account is closed periodically by means of a transfer to the debit of the partner's Capital Account.

In an alternative method, frequently found in practice, the amount of a partner's Capital is allowed, year by year, to remain at its original figure, each partner's share of the Profits made by the firm being credited to his Drawing Account (instead of to his Capital Account as in the former method), and to this Drawing Account all the withdrawals made by him are debited. Under this system, if a partner does not withdraw the whole of his share of the profits, the balance remaining to his credit on Drawing Account at the end of the year is carried forward to the credit of his Account for the ensuing period.

In consequence of the many conflicting opinions which have arisen out of the Partnership Act, 1890, this method of keeping "fixed" Capital Accounts with separate Drawing Accounts, dealt with as explained above, is becoming increasingly popular.

In preparing answers to examination papers it is preferable to credit profits *direct* to a partner's Capital

Account and to debit the total of his drawings (transferred from the "Drawings Account" to be separately opened) in the same account.

An example of a simple partnership account is given, wherein the profits are credited direct to the Capital Accounts of the partners and the drawings are transferred from the Drawing Accounts to the debit of the Capital Accounts at the end of the trading period.

Example.—John Brown and William Jones are trading in partnership as Brown, Jones & Co.; from the details given below prepare the partners' Capital Accounts as they would appear in the Ledger of the firm at the close of the year 1907—

	£	s.	d.
J. Brown, balance of Capital Account, Jan. 1, 1907	5,000	0	0
W. Jones, ,, ,, ,, ,,	2,500	0	0
J. Brown, drawings for the year	200	0	0
W. Jones, ,, ,, ,, ...	100	0	0
Profits for the year	600	0	0

Profits are divisible: two-thirds to J. Brown and one-third to W. Jones.

Dr. J. BROWN, Capital Account Cr.

1907.		£	s.	d.	1907.		£	s.	d.
Dec. 31	To Drawings for the year transferred from Drawings Account.........	200	0	0	Jan. 1	By Balance brought forward..............	5,000	0	0
,, 31	,, Balance, being Capital at this date, carried forward.........	5,200	0	0	Dec. 31	,, Transfer from Profit and Loss Account, being two-thirds of the net profit for the year....	400	0	0
	£	5,400	0	0		£	5,400	0	0
					1908.				
					Jan. 1	By Balance brought down	5,200	0	0

Dr. W. JONES, Capital Account Cr.

1907.		£	s.	d.	1907.		£	s	d.
Dec. 31	To Drawings for the year transferred from Drawings Account.........	100	0	0	Jan. 1	By Balance brought forward..............	2,500	0	0
,, 31	,, Balance, being Capital at this date, carried forward..........	2,600	0	0	Dec. 31	,, Transfer from Profit and Loss Account, being one-third of the net profit for the year....	200	0	0
	£	2,700	0	0		£	2,700	0	0
					1908.				
					Jan. 1	By Balance brought down	2,600	0	0

It is a common occurrence to find in a partnership agreement some such provision as the following:—

> "Partners shall be credited at the end of each year with interest at the rate of 5 per cent. per annum upon the amount of their capitals at the beginning of each year," *or*, "upon the current balances of their Capital Accounts."

This custom of allowing interest to partners upon their capital is a general one, although the "Interest" (so-called) is not in the ordinary sense interest which has been earned by the business as such; it is merely an appropriation to the credit of each partner of a preliminary share of the firm's profits based upon the amount of his Capital Account, and can only be termed "Interest" as a matter of convenience.

In cases where the Capital employed in a firm is contributed in unequal shares by the various partners, it is an obvious matter of equity that the claims of those partners who contribute the larger share of the Capital should be recompensed by the allowance of interest at a fixed rate upon the credit balance of all the partners' Capital Accounts. In this manner the inequality of the contributions of capital by the partners are fairly adjusted as between themselves.

Interest so credited to partners upon their Capital must perforce be debited, as if it were an ordinary payment of interest, in the Profit and Loss Account in the customary process of its compilation. The effect of this debit is to diminish, to the extent of such interest, the balance shown upon this account as representing "Net Profits," and (in cases where interest on Capital is so charged) the "Net Profits" shown do not form the whole of the actual trading profit earned by the business, but only the residuum which is left after allowing the partners, out of profits, an assumed rate of interest on the money they have embarked in the concern.

As has been pointed out above, if the partners' capitals are, as frequently is the case, disproportionate to the shares of profits taken by them, the charging and allowing of interest upon the Capital Accounts of the partners to a certain extent compensates for these inequalities, *e.g.* it is possible to conceive of a partnership of two persons where the capital of one partner was £10,000 and that of the other £1,000, and where both partners contributed

an equal amount of work and ability and were entitled to an equal share of the profits. In such a case it will be obvious that, if, before ascertaining profits, the larger Capital Account is to receive interest at, say, 5 per cent. per annum on £10,000, and the smaller that upon £1,000, the excess of capital contributed by the one partner receives due compensation.

In cases where one of the partners in a firm devotes a larger share of his time to the affairs of the partnership, or possesses greater skill or experience than his co-partner, it is not unusual for such a partner to be paid a salary in recognition of such services, such salary to be charged against the profits of the firm prior to their division.

The practice of allowing interest upon capital at fixed rates of interest also has the effect of demonstrating to the partners the extent to what they have derived additional profit by placing their money in a trading concern, as compared with the return which they would have obtained had they merely invested their capital in ordinary securities, and drawn the interest or dividends accruing from their investments.

The "Net Profits" of a firm represent (if interest upon capital has been charged at a reasonable rate) the additional income obtained by the partners by engaging in trade over and above the return which they would have received as investors. The liability of an investor may be limited to the amount he has staked in any one venture or company, while the liability attaching to a partner in a private business is unlimited; by charging interest upon capital in their Profit and Loss Account the partners in a firm are therefore enabled to ascertain whether the additional income thus accruing to them compensates them adequately for the increased risks and liabilities they have assumed.

Interest is sometimes *charged* upon the sums withdrawn by partners, just as it is *allowed* upon the Capital standing to their credit. This practice is the more equitable method of accounting in cases where there are no stated dates or limits fixed for partners' drawings, or where such drawings are unequal in amount. In examination questions, however, charging interest on drawings is usually excluded, or, if it is to be taken into account, the necessary figure of interest is given to the candidate to insert.

The Drawing Account of a partner in a firm where interest at 5 per cent. is charged upon all drawings is set out below *—

JOHN SMITH.

DRAWING ACCOUNT

Dr. **Cr.**

Date.		Folio.	Days.	Interest. £	s.	d.	Drawings. £	s.	d.	Date.		Folio.	£ s. d.	£	s.	d.
1908.										1908.						
May 30	To Cash......	3	214	5	17	3	200	0	0	Dec. 31	By Balance transferred to John Smith's Capital Account	P.L. 19		760	16	0
Aug. 27	,, Do.......	46	126	1	14	6	100	0	0							
Oct. 19	,, Do.......	59	73	0	10	0	50	0	0							
,, 26	,, Do.......	61	66	2	14	3	300	0	0							
Dec. 31	,, Do.......	92					100	0	0							
,, 31	,, Interest	J. 101	£	10	16	0	10	16	0							
						£	760	16	0				£	760	16	0

The subject of "Goodwill" is dealt with later on in this treatise, but it is so intimately associated with many questions of partnership accounting that it requires at least some brief consideration in this place, particularly in the light of the relations which arise as between partners in regard to it.

Goodwill is, as has been previously stated, an intangible asset, but it is none the less, in many cases, a very real one. It may be defined as the "benefit arising from connection and reputation," † and although it is not an Asset which a trader can take into the market and sell immediately, or upon which he can readily raise a loan from his bankers, the question of Goodwill, and the price to be paid for any share in it, frequently assumes important proportions in negotiations between the existing members of a firm, or the existing owners of an established "Goodwill," and proposed incoming partners. A prospective partner

* In the somewhat rare cases where the partners of a firm have contributed the Capital equally, and take their periodical drawings in exactly the same proportion as they share the profits, there is obviously no urgent need to make any provision for interest either upon Capital or Drawings, except for the purpose of showing how the income derived from trading compares with the interest product which would arise from investing the same amount of capital in ordinary securities.

† "Goodwill is nothing more than the *probability* that the old customers will resort to the old place."—LORD ELDON.

upon his becoming an actual partner acquires, by virtue of such partnership, the right to a proportionate share of the existing Goodwill, and to the profits derived from its use and possession, and it is only equitable that the former owners of the Asset shall claim adequate compensation for surrendering a portion of these benefits. Upon the dissolution or liquidation of a partnership the sale of the Goodwill produces, in many cases, a sum of money which is available for division among the partners, and, in such cases, similar questions arise as to its equitable distribution.

A partner upon joining an existing firm usually pays to the former members a certain sum, known as a "**Premium**," for his admission; this "premium" is, as far as the new-comer is concerned, an admission fee entitling him to a share of the Goodwill of the business and of the profits arising out of its possession. The new partner frequently pays this sum direct to the former partners as a matter entirely outside the business, and, in these cases, there is no occasion to record the transaction in the books of the new firm.

Example.—If A. B. (an incoming partner) pays to C. D., the former sole owner of the business, £1,000 by way of a premium for admission as a partner in C. D.'s business, and in addition brings in £500 in cash into the business as his capital, A. B.'s Capital Account only requires to be credited with the £500 placed in the coffers of the new firm, the £1,000 paid to C. D. being a private matter between A. B. and C. D. with which the records of the firm have no concern.

Occasionally payments made by an incoming partner to the existing members of a firm in respect of "premium" are passed through the firm's banking account for the sake of convenience, but they are not credited to the incoming partner as is the case with his capital contribution. It is the account of each recipient of the money, *i.e.* of each existing partner, which is credited with his share of the premium received, and the "premium" thus credited to him may be allowed to stand to his credit as additional capital or be withdrawn by him as may be arranged between the parties to the agreement. The main point to be remembered in this connection is that the incoming partner has no further interest in or control over the premium he pays for admission after having parted with it.

It is necessary for the student, in dealing with partnership accounts and the admission of new partners into an existing firm, always to bear in mind the essential

difference which exists between sums paid by an incoming partner by way of "premium" for admission, and any contribution which may be made by him to the firm's existing capital. With the former amount the new-comer has little or no concern after having parted with it, since what he pays under this head becomes, as has been indicated above, the absolute private property of the persons to whom it is paid. With the latter amount, however, he is permanently concerned, because it represents his share of the new firm's capital. The division, as between the existing partners in a firm, of sums paid to them by an incoming partner in respect of his share of the Goodwill, takes place ordinarily upon the same basis as that upon which they share profits, and not upon the basis of the amount of their respective capitals. This procedure arises out of the fact that the payment for a share of the Goodwill is a compensation paid to existing partners for a share of future profits surrendered by them to the incomer, and requires to be divided according to the basis upon which profits are dealt with.

The principle explained above is exemplified in the following case—

Example.—J. Roberts and O. Owen, trading as Roberts & Company, and possessing respectively capital amounting to £2,000 and £1,000, and sharing profits as to two-thirds to J. Roberts and as to one-third to O. Owen, decide to admit W. Brown as on December 31, 1908, as a partner. W. Brown is to bring in £1,000 as his capital, and is to pay £1,500 to the pre-existing partners for his share of the Goodwill (*i. e.* by way of premium on admission), and the shares of profits as between the partners are then to be as follows: J. Roberts ½, G. Owen and W. Brown ¼ each.

Assuming that these transactions have been duly carried out, and that the £2,500 has been paid by W. Brown into the firm's banking account, from which the old partners have withdrawn their proportionate shares of the payment for Goodwill, show these transactions in the new firm's books.

No Goodwill Account exists in the books of the old firm, nor, in a question of the above character, need any Goodwill Account be opened. The occurrence of the words "for his share of the Goodwill" must not be allowed to mislead the student into crediting Goodwill Account with the £1,500 paid by way of premium for admission, in view of the fact that this sum goes absolutely to the old partners.

The £1,000 paid in by W. Brown as his capital is of quite a different nature, and must be credited to his Capital Account. The £1,500 paid in by him as premium

for admission, if recorded in the books at all, would be credited as to two-thirds of it (£1,000) to J. Roberts, and as to the remaining one-third of it (£500) to O. Owen, the entries being passed through their respective Capital Accounts for the sake of convenience. The withdrawal of the £1,500, when effected, would be debited to the former partners' Capital Accounts in the ordinary way.

Dr. **J. ROBERTS, Capital Account** Cr.

1908.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To Cash........	1,000	0	0	Dec. 31	By Balance brought forward	2,000	0	0
" 31	" Balance carried down........	2,000	0	0	" 31	" Cash, two-thirds of W. Brown's premium for admission...........	1,000	0	0
		£3,000	0	0			£3,000	0	0
					1908. Dec. 31	By Balance brought down.........	2,000	0	0

Dr. **O. OWEN, Capital Account** Cr.

1908.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To Cash........	500	0	0	Dec. 31	By Balance brought forward.....	1,000	0	0
" 31	" Balance carried down........	1,000	0	0	" 31	" Cash, one-third of W. Brown's premium for admission	500	0	0
		£1,500	0	0			£1,500	0	0
					1908. Dec. 31	By Balance brought down	1,000	0	0

Dr. **W. BROWN, Capital Account** Cr.

					1908.		£	s.	d.
					Dec. 31	By Cash (capital paid in on this date)	1,000	0	0
							£1,000	0	0

Dr. **BANK** Cr.

1908.			£	s.	d.	1908.		£	s.	d.
Dec. 31	To *W. Brown, Cap. A/c,* Capital brought in........	£ 1,000				Dec. 31	By *J. Roberts, Capital Account,* proportion of W. Brown's premium for admission withdrawn.	1,000	0	0
" 31	" *J. Roberts, Cap. A/c,* two-thirds of W. Brown's premium for admission	1,000				" 31	" *O. Owen, Capital Account,* proportion of W. Brown's premium for admission withdrawn.	500	0	0
" 31	" *O. Owen, Cap. A/c,* one-third of W. Brown's premium for admission................	500	2,500	0	0					

Upon the admission of a new partner, in cases where it is desired to give the former partners some compensation for such admission without obliging the incomer to pay them any cash premium, it is frequently arranged that a "Goodwill Account," *i.e.* an "Asset" Account, shall be opened in the books of the new firm for an agreed sum, the corresponding credit for which shall be placed to the old partners' respective Capital Accounts. In this way the Capital Accounts of the old partners are augmented by a certain sum, as compared with any cash capital which may be introduced by the incoming partner. Furthermore, since the new partner obtains, in exchange for any cash capital he may bring in, a proportionate part only of the Assets (including the intangible asset of Goodwill now brought into the books at the agreed figure), this plan obviously operates to his detriment and for the benefit of the previous partners.

Example.—A. B., trading as A. B. & Co. with a capital of £1,000, represented by cash £500 and stock £500, and having no liabilities, decides to admit C. D. as a partner as on January 1, 1909; the latter is to bring in £1,000 as cash capital, and a "Goodwill Account" is to be raised on the books for £1,500, which is to be credited to A. B.

Prior to C. D.'s admission a Journal entry is passed through the books, debiting Goodwill Account with £1,500 and crediting a like sum to A. B.'s Capital Account; the latter account is thereby raised to £2,500. C. D.'s £1,000, when paid into the bank, is credited to his Capital Account in the ordinary way.

The effect of these transactions, and the position of A. B., before and after their occurrence, will be gathered from the subjoined Balance Sheets.

A. B. & CO.'S BALANCE SHEET, as on December 31, 1908 (prior to the admission of C. D.)

Liabilities.	£	s.	d.	Assets.	£	s.	d.
A. B., Capital Account	1,000	0	0	Cash	500	0	0
				Stock	500	0	0
£	1,000	0	0	£	1,000	0	0

A. B. & CO.'S BALANCE SHEET, as on January 1, 1909 (after the admission of C. D.)

Liabilities.	£	s.	d.	Assets.	£	s.	d.
A. B., Capital Account	2,500	0	0	Cash	1,500	0	0
C. D., do. do.	1,000	0	0	Stock	500	0	0
				Goodwill	1,500	0	0
£	3,500	0	0	£	3,500	0	0

It will be noted that whereas A. B. previously had a capital of £1,000, represented entirely by tangible assets, he possesses, after the admission of C. D., a capital of £2,500, represented by his share in the Assets of the new firm. The latter amount to £3,500, including the intangible asset of "Goodwill" amounting to £1,500, and this im-

provement in A.B.'s position has been effected without any cash contribution whatever on his part.

For various reasons partnerships are sometimes dissolved and liquidated, all the Assets of the firm being realized, and all the creditors paid off; a process which is to a great extent similar, is necessary when a business belonging to a private partnership is sold to a limited company formed for the purpose of acquiring it.

In the event of a partnership dissolution the Partnership Act, 1890, provides that the Assets, upon realization, shall be applied in the following order—

1. In discharge of the debts due to outside creditors.
2. In repayment of *loans* from partners.
3. In repayment of partners' *capital.*
4. The surplus (if any) to be distributed in the same proportion in which profits are divided.

If the Assets should prove to be insufficient to repay claims 1 to 3 as set out above, it is obvious that a loss must have resulted upon realization, and that such loss must be made good in order that the claims of the partners *inter se* may be adjusted. In the event of bankruptcy it is only the debts due to the outside creditors which are allowed to rank as claims against the assets of the firm, and one type of creditors' claim is deferred to the rest of the creditors'—viz. loans advanced to a firm the interest upon which varies with the profits made, or in return for which a share of profits is taken in lieu of interest. Upon a loan of this nature no dividend can be claimed until all the other creditors of the firm have been paid in full.

Upon the commencement of a partnership liquidation all the Assets, except cash, belonging to the firm are transferred to an account styled a "**Realization Account**"; to this account the various amounts of cash realized by the sale of the Assets are credited, and when all the latter have been disposed of there usually remains a balance either to the debit or to the credit of the Realization Account, representing the Loss or the Surplus, as the case may be, arising out of the realization.

This balance of Profit or Loss is transferred to a "**Profit and Loss on Realization Account,**" and is there divided among the partners in the ordinary way, according to the proportions in which they share profits or losses, unless, of course, any other basis of division is laid down in the Articles of Partnership. The payment of the creditors'

claims is recorded by crediting Cash with all sums so disbursed, and debiting the individual creditors' accounts in the customary manner. After these preliminary steps have been carried out the balance of Cash in hand should tally exactly with the total of the partners' Capital Accounts after the respective share of Profit or Loss on realization (as the case may be) has been transferred to the Capital Account of each partner. If the loss on realization proves to be heavy it sometimes happens that the Capital Accounts of one or more partners disclose a debit balance owing to the fact that the share of the loss on Realization Account chargeable to them is greater than the previous credit balance of such partner's Capital Account. This unfortunate result indicates that the partners concerned must contribute to the firm's banking account a sum sufficient to restore the equilibrium of their Capital Accounts. After this adjustment has been effected the available cash balance will exactly equal the total amounts standing to the credit of those partners whose Capital Accounts show a balance on the right (*i.e.* the credit) side.

These principles are illustrated in the subjoined Example:—

P. Quaritch and R. Smith, trading in partnership as Quaritch & Smith, agree to dissolve the same and to liquidate their business as on December 31, 1908.

Their Balance Sheet, as at that date, was as under—

MESSRS. QUARITCH & SMITH.

BALANCE SHEET, December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
P. Quaritch, Capital Account	2,000	0	0	Cash........................	200	0	0
R. Smith, Capital Account..................	500	0	0	Sundry Asse	3,300	0	0
Sundry Creditors	1,000	0	0				
	£3,500	0	0		£3,500	0	0

Profits are shared equally between the partners. The "Sundry Assets" upon being sold realized only £2,000 in cash. The liquidation expenses amounted to £100 (paid in cash). Show the result of the liquidation, the same being concluded on February 1, 1909; any deficiency on either partner's Capital Account is to be paid in in cash, and the balance of cash then available being distributed.

Dr. P. QUARITCH, Capital Account Cr.

		£	s.	d.			£	s.	d.
1909.					1908.				
Feb. 1	To half-share of Loss on Realization	700	0	0	Dec. 31	By Balance brought forward	2,000	0	0
„ 1	„ Cash.........	1,300	0	0					
		£ 2,000	0	0			£ 2,000	0	0

Dr. R. SMITH, Capital Account Cr.

		£	s.	d.			£	s.	d.
1909.					1908.				
Feb. 1	To half-share of Loss on Realization	700	0	0	Dec. 31	By Balance brought forward	500	0	0
					1909. Feb. 1	„ Cash, deficiency on Capital Account paid in...............	200	0	0
		£ 700	0	0			£ 700	0	0

Dr. SUNDRY ASSETS Cr.

		£	s.	d.			£	s.	d.
1908.					1909.				
Dec. 31	To Balance brought forward	3,300	0	0	Jan. 1	By Transfer to Realization Account.........	3,300	0	0
		£ 3,300	0	0			£ 3,300	0	0

Dr. REALIZATION ACCOUNT Cr.

		£	s.	d.			£	s.	d.
1909.					1909.				
Jan. 1	To Sundry Assets	3,300	0	0	Feb. 1	By Cash, proceeds of sale of Assets	2,000	0	0
					„ 1	„ Profit and Loss Account (Loss on Realization)..........	1,300	0	0
		£ 3,300	0	0			£ 3,300	0	0

Dr. SUNDRY CREDITORS Cr.

		£	s.	d.			£	s.	d.
1909.					1908.				
Feb. 1	To Cash........	1,000	0	0	Dec. 31	By Balance brought forward	1,000	0	0
		£ 1,000	0	0			£ 1,000	0	0

PROFIT AND LOSS ON REALIZATION ACCOUNT

Dr.			£	s.	d.	Cr.			£	s.	d.
1909.						1909.					
Feb. 1	To Loss on Realization of Assets....		1,300	0	0	Feb. 1	By Transfer to P. Quaritch's Capital Account, half-share of Loss..........		700	0	0
,, 1	,, Liquidation Expenses ...		100	0	0	,, 1	,, Transfer to R. Smith's Capital Account, half-share of Loss..........		700	0	0
		£	1,400	0	0			£	1,400	0	0

CASH

Dr.			£	s.	d.	Cr.			£	s.	d.
1908.						1909.					
Dec. 31	To Balance ...		200	0	0	Feb. 1	By Sundry Creditors....		1,000	0	0
1909.						,, 1	,, Profit and Loss Account, Liquidation Expenses ...		100	0	0
Feb. 1	,, Realization Account, Proceeds of Assets........		2,000	0	0						
,, 1	,, R. Smith's Capital Account, deficiency paid in...............		200	0	0	,, 1	,, P. Quaritch's Capital Account, balance due to him		1,300	0	0
		£	2,400	0	0			£	2,400	0	0

It will be noted that, in the above example, the loss and expenses arising out of the liquidation were heavy, and that, after the realization, R. Smith's Capital Account showed a debit balance, a deficiency of £200 being apparent, while the other partner's Capital Account showed a credit balance of £1,300. The cash remaining on hand amounted to £1,100. Upon R. Smith paying in the deficiency of £200 due upon his Capital Account, the available cash balance was raised to £1,300, which amount was duly paid to P. Quaritch, being the balance due to him as shown by his Capital Account. If, as sometimes occurs, some of the partners in a dissolving firm take over certain specified Assets at an agreed valuation, instead of taking the same sums in cash, no difference in principle arises in the method of accounting. The Assets taken over are debited to the Capital Accounts of the partners concerned at the agreed figure, just as though cash had passed in the ordinary way.

EXERCISES.

15A.

1. Define a partnership and indicate its principal and most usual characteristics.

2. Compare the position of a partner in a private firm with that of a shareholder in a limited liability company.

3. Explain the custom of allowing interest on the Capital Accounts of partners.

4. What numerical limits are legally assigned as regards the partners in a firm?

5. Discuss the question of Goodwill in connection with partnerships.

6. When a new partner is admitted into an existing firm he frequently contributes capital, and pays, in addition, a premium to the previous partners for his admission. Discuss the meaning of these two contributions and show how their method of treatment in the books differs.

7. Explain the terms

Drawing Account,
Realization Account,

in relation to partnerships.

8. A. and B. are in partnership sharing profits equally, and decide to admit C. as an equal partner with themselves; C. however is unable to contribute any money, either as capital or by way of premium for admission; nor will the financial condition of the business permit immediate cash withdrawals by A. and B. By what arrangement can A. and B. be benefited and C. be penalized out of future profits without upsetting the arrangement that A., B. and C. are to share profits equally?

9. Upon the dissolution of a partnership how are the assets of the firm applied under the Partnership Act, 1890?

10. What are the provisions of the Partnership Act, 1890, as regards—

1. Interest on partners' capital,
2. Interest on loans by partners to the firm,
3. Partner's salaries?

15B.

Henry and Robert James are trading in partnership as James Bros., Henry James's capital on January 1, 1909, being £10,000, and Robert James's capital on the same date, £400.

The partnership deed provides (1) that proper accounts are to be prepared half-yearly; (2) that interest on capital is to be allowed every half-year upon the balance shown by each partner's Capital Account at the commencement of the half-year, at 5 per cent. per annum; (3) that Robert James is to be entitled to a salary of £200 per annum, payable half-yearly out of profits; (4) that the divisible profits are to be shared between the partners in the proportion of three-quarters to Henry James and one-quarter to Robert James.

The profits for the half-year ended June 30, 1909, before providing for the above adjustments, amounted to £950.

Robert James withdrew £180 on June 29, 1909; apart from this no partners' drawings have taken place.

Show the partners' accounts as they would appear in the firm's Ledger.

15c.

Thomas Inwood, trading under the name of Inwood & Co., finds that on December 31, 1908, his books show the following position—

Liabilities.	£	s.	d.	Assets.	£	s.	d.
Sundry Creditors......	2,000	0	0	Cash at the Bank.....	500	0	0
T. Inwood, Capital Account................	2,000	0	0	Other Assets...........	3,500	0	0
	£4,000	0	0		£4,000	0	0

He decides, as at the above date, to admit Hubert Boorman as partner upon the following terms. H. Boorman is to pay into the firm's banking account £2,000, of which £500 is to be his capital, and £1,500 in payment for his share of the goodwill of the business. T. Inwood is to draw out £500 of this £1,500 and to leave the balance in the business as a loan to the new firm for three years at 6 per cent. per annum.

H. Boorman is to receive a salary of £100 per annum, payable out of profits. Partners' capital accounts are to bear interest at 5 per cent. per annum.

Profits are to be divided as to two-thirds to T. Inwood and as to one-third to H. Boorman.

Assuming that the foregoing transactions were duly carried out on January 1, 1909, that no partners' drawings took place during the year, and that the profits for the year 1909 amounted to £1,800 before allowing for any of the adjustments set forth above, you are requested to prepare the partners' capital accounts.

Note.—Interest on T. Inwood's Loan is to be credited to his Capital Account.

15d.

H. Edwards and L. Steel are trading in partnership under the firm name of Edwards & Steel, profits being shared as to two-thirds to H. Edwards, and as to one-third to L. Steel, their Balance Sheet as on December 31, 1908, being as follows—

Liabilities.	£	s.	d.	Assets.	£	s.	d.
H. Edwards, Capital Account................	1,000	0	0	Cash........................	100	0	0
				Sundry Assets.........	13,800	0	0
L. Steel, Capital Account...............	900	0	0				
Sundry Creditors......	12,000	0	0				
	£13,900	0	0		£13,900	0	0

As on January 1, 1909, they admit B. Mervyn as a partner in the business on the following terms—

(*a*) Profits are to be divided as to three-sixths to H. Edwards, as to two-sixths to L. Steel, and as to one-sixth to B. Mervyn.

(*b*) B. Mervyn is to bring in £500 in cash as his capital.

(*c*) A Goodwill Account is to be raised on the books under date

January 1, 1909, for £900; this sum is to be credited to the previous partners in the same proportion in which they shared profits prior to B. Mervyn's admission.

(*d*) H. Edwards is to be at liberty to withdraw £200 of his capital on January 1, 1909.

(*e*) B. Mervyn is to have a salary of £200 a year out of profits.

(*f*) Interest is to be allowed on partners' Capital Accounts at the rate of 5 per cent. per annum; no interest is to be charged on drawings, each partner is to be at liberty to withdraw £20 a month in anticipation of profits, or (in the case of B. Mervyn) in anticipation of profits and salary.

Assume that the foregoing transactions relating to the change in the constitution of the firm have been duly carried out, and that each partner has regularly drawn £20 at the end of each month during the year 1909. The profits for 1909, before making any allowance for B. Mervyn's salary, or for interest on partners' capital, amounted to £1,255. Show the partners' Capital and Drawing Accounts as they would appear in the firm's Ledger at the close of the year 1909.

15E.

A. Brown and Robert Hicks, trading in partnership, decide, as on December 31, 1909, to dissolve partnership and liquidate the business. Their Balance Sheet as at that date was as under—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Capital Account, A. Brown..................	1,000	0	0	Cash....................	500	0	0
				Other Assets...........	2,850	0	0
Capital Account, R. Hicks..................	850	0	0	Goodwill.................	500	0	0
Sundry Creditors......	2,000	0	0				
	£3,850	0	0		£3,850	0	0

Profits are shared between the two partners in the proportion of three-fifths to A. Brown and two-fifths to R. Hicks.

The "Other Assets, £2,850," realized only £1,850, and the Goodwill was disposed of for £100. The expenses of the liquidation amounted to £50.

Show the process of realization as it would appear in the firm's Ledger, and the position of the two partners as regards the disposal of the balance of cash remaining after satisfying the firm's liabilities.

Answers.—

15B. Credit Balances of Capital Accounts, June 30, 1909: H. James, £10,692 10*s.* 0*d.*; R. James, £477 10*s.* 0*d.*

15C. Credit Balances, December 31, 1909: T. Inwood, Capital Account, £3,170; T. Inwood, Loan Account, £1,000; H. Boorman, Capital Account, £1,130.

15D. Credit Balances, December 31, 1909: H. Edwards, Capital Account, £1,680; L. Steel, Capital Account, £1,320; B. Mervyn, Capital Account, £635.

15E. Cash Balance at close of liquidation, £400. Divisible—A. Brown, £130; R. Hicks £270.

CHAPTER XVI

JOINT STOCK COMPANIES AND THEIR ACCOUNTS

The accounts of Joint Stock Companies, whatever the particular business may be in which they are engaged, are, of course, as regards their trading aspect, precisely the same as the accounts of a partnership, or those of a sole trader, engaged in a business of a like nature; but as regards the accounts which are kept to record the position of the proprietorate (*i.e.* the shareholders), and the transactions of a "Capital" nature between them and the Company, the books of a Company present special features which require detailed explanation.

An "**Incorporated Company**" consists of a body of persons united for certain definite purposes, under royal or legislative sanction, in such a manner that they form a "corporate body," *i.e.* a fictitious person recognized by the law as a legal entity capable of holding property and incurring obligations.

Companies may be incorporated (1) by the direct enactment of a special statute, *e.g.* the various British Railway Companies, (2) by Royal Charter, *e.g.* the Royal Mail Steam Packet Company, or (3) by the registration of a formal document, called a "**Memorandum of Association,**" with a Government official (the "Registrar of Joint Stock Companies") appointed under the Companies (Consolidation) Act, 1908. The great majority of commercial companies are incorporated by means of the simple process of registration with the Registrar of Joint Stock Companies.

The feature which has caused the formation of Companies to become so favoured for trading purposes is undoubtedly the principle of "limited liability," which, under the provisions of the Companies Acts, the constitution of Companies can be made to confer.

If a Company be registered with a memorandum of association containing a clause stating that the "liability of the members is limited," no member of the Company

is liable to be called upon to contribute any sum beyond the face value of the actual shares he has agreed to take or the capital he has undertaken to contribute. When he has paid the amount due upon the shares subscribed for by him, he is entirely relieved from the possibility of any further claim to contribute towards the Company's liabilities, and, although he may lose, through the Company's ultimate failure, whatever capital sum he may have invested, he cannot be made liable to contribute anything beyond that sum, however involved in debt the Company may have become.

In a partnership the liability of all the members is, as has already been stated, unlimited. Companies can also be registered "with unlimited liability," and shareholders in such companies are, as regards liability, much in the position of the members of an ordinary partnership. Unlimited companies are consequently rare, although two or three private banks have adopted this form of incorporation.

The Companies (Consolidation) Act, 1908 (Section 1), enacts that no private partnership of more than *ten* persons shall be formed to carry on the business of banking, nor shall any partnership of more than *twenty* persons be formed to carry on any other business having the acquisition of gain as its object, unless it be registered as a Company. Mining Companies within the stannaries, a form of Company much favoured in Cornwall, and Companies working under letters patent, or a special act of Parliament, are exempt from the above section.

Any *seven* or more persons may combine to form and register a Company under the Companies Acts; and in the case of a special class of limited Companies styled "Private Companies" *two* persons are sufficient for the purposes of incorporation.

In addition to what are known as "**Public Companies**," that is to say, those Companies which have made public issues of their shares, there is a class of Company known as **Private Limited Companies**. A "Private Company" is defined by the Companies (Consolidation) Act, 1908 (Section 121), as one which by its articles of association—

(*a*) Restricts the right to transfer shares.

(*b*) Limits the number of its members (exclusive of persons who are in the employment of the Company) to fifty.

(*c*) Prohibits any invitation to the public to subscribe for any Shares or Debentures of the Company.

This class of Company is frequently met with in practice, and affords a great convenience in the case of "family businesses," enabling a testator, whose capital is locked up in his business, to divide his estate amongst his children or others without disturbing the financial arrangements of the business, while at the same time limiting the liability of those to whom a share in the business is left.

Private Companies have also the advantage of exemption from the necessity to file annually the "statement in the form of a Balance Sheet" which is obligatory on other Companies under Section 26 of the Companies (Consolidation) Act, 1908. The capital of Private Companies is very frequently held almost entirely by one individual, hence the term "**One-man Company**."

The fundamental regulations of most Companies contain a statement of the amount of the Company's capital, coupled with a note of the number of separate fractions or "**Shares**" into which such capital is divided; *e.g.* "the Company's capital shall be £10,000, divided into 10,000 ordinary shares of one pound each." The figure so fixed is in reality nothing more than the *amount of capital which the Company at its inception takes power to issue*, and is called the "**Authorized Capital**"; the Companies Acts require the amount of the authorized capital to be stated in the Memorandum of Association in the case of all Companies incorporated by registration under these Acts, partly, doubtless, because a stamp duty based upon the amount of the "authorized" capital is payable to the Government upon the registration of the Company.

Although a Company may, and frequently does, take power in its memorandum of association, or other document, to issue a certain sum of capital or a certain number of shares, it does not follow that it is always either expedient or possible to issue at once the whole of such capital. Indeed, it frequently happens that a public issue of shares is not wholly taken up by investors, the balance of the shares offered in such cases remaining unissued. In many cases therefore the amount of a Company's "Authorized" Capital has no direct connection with the amount of its liability to its shareholders for capital contributions.

The nominal amount of capital which, at any given time, has been taken up by the shareholders is called the

"**Issued**" or "**Subscribed**" capital. The amount of a Company's "Subscribed" capital therefore represents the total amount which its members have agreed to contribute.

In addition to the fact that it will be frequently found that the whole of a Company's shares have not been issued, or, if issued, have not been taken up, it is a very common occurrence to find that, upon those shares which have actually been issued, a portion only of the face value has been paid into the Company's coffers. A Company has no legal power to issue its shares for less than their face value, but it is not compelled, unless it requires the money, to call upon the holders of its shares to pay up at the outset the whole of the sum they have contracted to contribute; periodical **Calls**, as they are termed, can be made of one-half, one-quarter, or whatever other proportion is deemed advisable, of the nominal amount of each share; further "calls" upon the Company's members can be made, as and when needed, until the whole of the face value of the issued shares has been called and paid up.

The total amount actually contributed in cash by the shareholders at any particular date is called the "**Paid-up Capital**"; this amount may obviously differ both from the "Authorized Capital" and from the "Subscribed Capital," *e.g.* the "Authorized" capital of a Company may amount to £10,000, divided into 10,000 shares of £1 each. The "Subscribed" Capital may consist of 5,000 shares of £1 each, *i.e.* £5,000. The "Paid-up" Capital may represent 10*s*. per share on each of the 5,000 £1 shares subscribed, *i.e.* £2,500. The "Paid-up" Capital of a Company therefore is that amount which has been actually called up and paid by the members of the Company.

Companies frequently issue more than one type of share, the various classes issued possessing various priorities among themselves, either as to "Capital" or "Dividend" rights or both. In this connection the following definitions may prove helpful, although, as between different companies, shares of the same designation may possess widely different rights.

"**Preference Shares**" are shares possessing some preferential rights over the other classes of shares issued by the Company; it may be that (1) they are entitled to a preferential fixed dividend each year, if sufficient profits are made (these shares are "preferential as regards revenue"), or that (2) in the event of liquidation of the Company

they are entitled to priority of payment out of the assets before any of the other classes of shareholders (these shares are "preferential as regards capital"). In many cases preference shares are "preferential" both as to Capital and Dividend.

If a Preference Share is also described as "**Cumulative,**" it implies that the arrears of any fixed dividends due thereon but not paid in any one or more years (owing to the fact that insufficient profits were made out of which to pay them) are carried forward to later years (*i.e.* "**Accumulated**"), until sufficient profits have been earned out of which to satisfy them. If a Preference Share is described as "**Non-cumulative,**" it indicates that each trading period is considered, for the purpose of paying dividends on the Preference Shares, as a matter apart; and that unpaid arrears of dividend are not carried forward to future years, and cannot be subsequently claimed.*

"**Ordinary Shares**" are a class of shares entitled, as a general rule, to the whole of the profits made by the Company after the fixed dividends payable on the Preference Shares have been duly discharged.

Shares of the "Ordinary" class have no fixed rights as to dividends, neither have they any claim for priority of payment in case of liquidation. To counterbalance the absence of these advantages they are usually entitled to the larger share of any profits made should the Company prove successful.

Special classes of shares, frequently taking a deferred interest in the profits quite disproportionate to their nominal amount, are also extensively found. These shares are generally called "**Deferred Shares,**" "**Founders' Shares,**" or "**Management Shares,**" and are frequently issued to the originators of the Company, or to their friends.

* The student must not, however, infer from the above that the holders of Preference Shares are *creditors* in the ordinary sense for any dividends which may be in arrear upon their Cumulative Preference Shares. They do not become active claimants until the Company earns sufficient profits out of which to meet the arrears of dividend. For this reason the amount of Preference dividend which may be outstanding at any time is not passed through the accounts. It is, however, in the author's opinion, advisable to insert a note on the face of the Balance Sheet to the effect that arrears of Preference dividends exist, stating the amount due to date. In the absence of such a note it is conceivable that a person contemplating the purchase of the Company's Ordinary Shares might be misled.

In cases where a patent, or other speculative property, is acquired by a company, it is a salutary practice that the vendor shall be paid largely by means of shares, the dividend upon which is "deferred" until the shares contributed by those who find the actual cash with which to launch the venture have received a certain fixed rate of dividend. In these cases the balance of profit remaining, after such fixed dividends have been paid, is frequently divided in agreed proportions between the two classes of shares.

The advantages of limited liability attach to *all* classes of shares in a Limited Liability Company. Dividends cannot be paid to any class of shareholder except out of the profits earned by the Company; the question as to what are a Company's profits, in the legal sense of the term, frequently leads to considerable confusion, and, owing to somewhat conflicting legal precedents dealing with the matter, great difference of opinion, and much controversy, have arisen.

In the case of some Companies the capital is not divided into "so many shares of a certain money sum each" but into so many pounds sterling of a specified "Stock" of the Company. "**Stock**" in almost all respects possesses the same characteristics as "Shares"; the rights as to dividend and priority of repayment may be identical in both cases, indeed it is possible for Companies if they so desire, to change their Capital from the one form into the other. "Stock" may be defined as capital consolidated into one mass for the sake of convenience, and is transferable in any fractions, except where otherwise stipulated.

On the other hand, fractions of Shares are not allowed to be transferred, *one* Share being, as a rule, the minimum. Every "Share" bears a distinctive number, while "Stock" possesses no numbers.

The "Share Capital" of a Company is, of course, the proprietors' capital, and corresponds to the partners' Capital in a private partnership. In addition to the issue of Share Capital Companies frequently raise money in the shape of loans for fixed periods, interest being paid on these obligations quite irrespective of whether the Company's profits are sufficient to pay them or not. Borrowings of this nature are usually secured by the pledge of certain portions of the Company's property coupled with a "General charge," under which the whole of its Assets

are hypothecated. Loans of this nature are sometimes secured by means of separate deeds under the Company's seal given to each individual lender, known as "**Debentures,**" setting forth the amount of the loan and its various particulars.

In other cases "**Debenture Stock**" is issued in the same manner as "Preference" and other Stocks are issued. In cases where Debenture Stock is issued trustees are appointed to act for the holders of the Stock, and to hold the charge over the Company's Assets for the protection of the stockholders. "**Debenture Bonds,**" if issued, are usually for round sums, *e. g.* £50, £100, £200 and so on, and they may be expressed as payable to the original lender of the money or "to bearer," *i. e.* to the holder of the document for the time being.

In cases where "**Debentures to Bearer**" are issued a sheet of interest **Coupons** is attached. This sheet consists of a number of small "pay orders," detachable as they mature, and representing, in each case, the interest due for a certain half-year or other period, the complete sheet containing coupons covering the whole "life" of the Debenture Bond.

Each coupon when due is detached and presented for payment (usually through a banker), as and where indicated upon the Coupon itself.

Debentures, except "Bearer" Debentures and Debenture Stock, are usually transferable from one person to another by deed. The transfer of Bearer Debentures is effected by the simple delivery of the documents themselves.

Companies are usually managed by a small number of persons, generally shareholders, called a "**Board of Directors.**" These governing bodies appoint such managers and other officials as are needful for the proper conduct of the Company's business. The Boards of Directors of reputable and well-conducted undertakings usually consist of influential men possessing, in many cases, expert knowledge of the Company's particular business; unfortunately, the same cannot be said of the less desirable type of Company, the Boards of which frequently consist largely of individuals placed upon the direction at the instance of the promoter controlling the concern, and possessing neither independence nor business ability.

It is customary for a new Company of standing to make an appeal to the public to subscribe its Capital.

The document setting forth the details of the Company's business, the amount of Capital offered for subscription, the names of the officials and the profits estimated to arise from future trading, is termed a "**Prospectus.**" It is usually stipulated that the Capital offered for subscription, whether in the shape of Shares, Stock, or Debentures, is to be paid up by the applicant in instalments; a deposit is required on "**Application,**" a further payment is to be made, as a rule, when the application is granted by the Board (*i.e.* when the shares are "**Allotted**"), and further "**Calls**" are payable, either upon the dates set out in the prospectus, or as and when deemed to be desirable by the Board of Directors.

In order to record the capital transactions of a Company, entries must be passed through the ordinary books of account, but, in view of the large number of individual shareholders of which a Company may consist, it is customary to record the necessary entries in the financial books, as far as possible, in totals. Separate statistical books, styled "**Share** (or **Debenture**) **Registers,**" are used to record in detail the holdings of individuals with the amounts contributed by them originally, or particulars of the shares acquired by subsequent purchase.

Issues of Shares, of whatever class, or of Stock and Debentures or Debenture Stock are all treated in the books of a Company upon similar lines; it will only be necessary, therefore, to explain the process employed in issuing one type of capital and to illustrate the entries needful to record it. Capital of other descriptions is treated similarly under special accounts opened for each class of Share or Debenture.

All sums payable to a Company upon its making a public Issue of Shares are usually payable direct to the Company's bankers; and it is with the receipt by the latter of an **Application Form** for Shares coupled with the applicant's cheque for the amount of the application deposit that the entries in the Company's books commence.

The deposits received upon application are debited in detail in the Company's Cash Book, and are credited (preferably in totals as far as possible) to an Account styled the "**Application and Allotment Account.**" It is conceivable that the issue of Shares may be over applied for by the public, and that deposits may have to be returned to applicants who receive no allotment; again,

applicants may receive an allotment of a less number of Shares than they have applied for, in which case any surplus paid on application is usually applied in reduction of the amount payable on allotment, the balance only of the latter instalment then becoming payable.

The Board of Directors go through the "**List of Applications**" and decide the number of Shares which shall be allotted to each applicant; they direct the secretary of the Company to issue to the applicants notices of all allotments made (styled "**Letters of Allotment**"), and upon these letters being duly posted the contract between the applicant and the Company becomes complete; thereafter the former is legally bound to take and pay for the Shares allotted to him upon his application, as and when called upon to do so. On the other hand, prior to the posting of the allotment letter, the applicant is entitled to withdraw his application if he desires to do so.

Upon the "allotment" of a block of capital in this manner the "Application and Allotment Account" should be debited with the total sum payable "on application," and "on allotment" on the whole issue of the Shares so allotted, and this sum should be credited to the "**Share Capital Account.**" When the instalments due on allotment are paid they should be credited to the "Application and Allotment" Account, and to this account should be debited any cheques drawn in favour of those applicants who have received no allotment, or amounts remitted to partly successful applicants, in order to return any deposit, or excess of deposit, which they may have paid upon "application." When, finally, all allotment moneys have been duly received by the Company, the "Application and Allotment" Account should, of course, show no outstanding balance.

The crediting of the total of the allotment moneys in company with the application deposits to the Share Capital Account before the cash has actually been received amounts to an anticipation of events, and a reversing entry may subsequently be needed if any shareholders fail to pay their allotment instalments.

Under the Companies (Consolidation) Act, 1908 (section 92), every Company is compelled, within two months after the allotment of its Shares or Debentures, or within two months after the registration of a transfer of Shares or Debentures, to have complete and ready for delivery the certificates representing such Shares or Debentures.

When the Board of Directors decides to make a "call" upon the members for some further portion of the capital remaining unpaid, formal notices, requesting the payment of the call at a stated future date, are sent out to the members of the Company by the secretary. Upon the call falling due an entry, crediting the Share Capital Account and debiting the "Call Account," is made for the total amount receivable in respect of the call (this resembles the procedure in the case of the "Allotment" moneys). As the various shareholders pay to the Company's bankers the sums due from them, the Company's Cash Book is debited in detail, and the "Call Account" is credited in one or more totals; when the full amount of the call has thus been received the Call Account in the Ledger closes automatically.

For the sake of convenience many Companies arrange with their bankers that the various sums received on application and allotment, and in respect of calls, shall be kept separate and distinct in special accounts under appropriate headings, and with special pass books. From these special accounts sums can be transferred to the Company's General Account from time to time as desired.

In the case of a Company making a public issue as explained above, the Shares issued to the public must be paid for in cash. The law, however, permits "**Fully**" or "**Partly Paid**" **Shares** to be issued in exchange for any kind of valuable consideration other than cash, *e.g.* land, buildings, plant, machinery, book debts, patent rights, goodwill, and even personal service, subject to certain special formalities being complied with; viz. that an agreement between the Company and the vendor setting forth the nature of the consideration which the Company acquires in exchange for the Shares so issued shall be executed and filed with the Registrar of Joint Stock Companies within thirty days after the allotment of such Shares. "Fully" or "Partly Paid" Shares issued in this way in exchange for Assets are frequently referred to as "Shares issued credited as fully (or partly) paid"; if issued as "Partly Paid" the balance due upon the Shares must be paid up in cash as and when the Board of Directors may call for it. Debentures can similarly be issued as fully paid, and in their case a "consideration" (*e.g.* assets) is not legally necessary.

In cases where a Company, specially formed for the purpose, takes over, as a going concern, the Assets and

Liabilities (including the Goodwill) of a pre-existing partnership, a substantial portion of the purchase price is frequently satisfied by means of an issue to the former owners of the business of an amount of shares, stock, or debentures credited as fully paid up; these securities may rank equally with similar securities issued to the public, but if the latter is being approached for the subscription of a large sum of money there is more probability of a satisfactory response resulting if the vendors take securities ranking behind those offered to the public. The announcement that the former owners have agreed to take a large portion of the purchase price of their business in "Ordinary" or "Deferred" Shares naturally evidences their faith in the future prospects of the undertaking, and begets public confidence.

In cases where the whole of the purchase consideration is taken in Cash or in Debentures the attendant issue of Preference or Ordinary Shares may well be avoided by the prudent investor.

In a typical case the new Company takes over from the former owners (the "vendors") certain Assets, together with the Goodwill for a stated amount of money, payable in cash or shares as specified, and in addition assumes the old firm's current liabilities. In such a case the purchase price does not consist solely of the amount of cash or shares issued to the vendors; it embraces the latter amount plus the amount of the Liabilities assumed. Frequently a round sum is mentioned as representing the purchase price of the Assets plus the Goodwill and minus the Liabilities, the detailed purchase price of the individual Assets and of the Goodwill not being specifically mentioned, although, if a public issue be made, the purchase price of the goodwill must be separately stated in the prospectus. In the circumstances detailed above, the individual Assets taken over should be valued at a fair price, and the balance of the purchase money paid must be assumed to represent the Goodwill of the business. Such transactions must be made the subject of a Journal entry in which full details of the matter are set out.

Example.—If a newly-formed Company acquires from an existing partnership £30,000 worth of tangible Assets plus the Goodwill for £50,000, and undertakes to discharge in addition Liabilities amounting to £10,000, the total purchase price amounts to £60,000 (*i. e.* £50,000 plus £10,000), of which £30,000 can be ranked as representing the cost of the tangible Assets, and the balance of £30,000 can only be treated as the cost price of the Goodwill acquired.

A Company purchasing an existing business in this way usually pays for the "Goodwill" acquired a price far higher than a prudent private individual would be likely to give; to this fact is largely due the "Inflated" or "Watered" capitals which are unfortunately so frequently met with in joint stock company enterprise, and the existence of this practice is due to a great extent to the fact that the investor, whose liability is limited, is satisfied with a smaller return per cent. per annum upon his money than is the case with the individual trader whose liability is unlimited.

The foregoing principles are embodied in the subjoined illustration, which is that of a Company formed to take over an existing business for a stated consideration payable in cash, shares, and debentures, and making an appeal to the public for subscriptions.

Example.—Messrs. Grant, Wood & Co.'s Balance Sheet at December 31, 1908, shows the following Assets and Liabilities—

	£	s.	d.
Assets.—			
Cash	1,000	0	0
Stock	18,000	0	0
Debtors	29,000	0	0
Premises	14,000	0	0
	£62,000	0	0
Liabilities.—			
Sundry creditors	£12,000	0	0

The firm contracts, as on December 31, 1908, to sell their business to a limited Company, incorporated for the purpose under the name of Grant, Wood & Co., Ltd., for £75,000, payable as to £5,000 in cash, £10,000 in fully paid 5 per cent. Debentures, and as to £60,000 in fully paid shares, the Company taking over all the assets set forth above and assuming all the firm's liabilities.

The authorized share capital of the Company is registered as £150,000 in 150,000 shares of £1 each.

The Company, on January 5, 1909, offers for public subscription 60,000 £1 shares payable as follows: 1*s.* per share on application, 9*s.* per share on allotment, and 10*s.* per share on February 1, 1909. Applications, accompanied by the necessary deposit of 1*s.* per share, were received for 75,000 shares; 60,000 shares were allotted on January 8, 1909, in respect of these applications, in various proportions, amounts overpaid on application being applied towards part payment of the moneys due on allotment. Of the moneys due on allotment £20,100 was received on January 10 and the balance on January 11. The transfer to the Company of the assets acquired from Grant, Wood & Co. took place on January 10, the cash consideration being paid by cheque on the Company's bankers, and the

shares and debentures being duly allotted on that day to the vendors. The balance of 10*s.* per share, due from the allottees on February 1, was received by the Company, as to £29,450 on February 1, and as to the remainder on February 2, 1909.

Show these transactions as they would appear in the Company's Cash Book, Journal, and Ledger, bringing down the balances as on February 2, 1909, and preparing a Balance Sheet as on that date.

GRANT, WOOD & CO., LTD.

Dr. **CASH BOOK** **Cr.**

1909.			£	*s.*	*d.*	1909.			£	*s.*	*d.*
Jan. 5	To *Application and Allotment Account*—1*s.* per share on applications received for 75,000 shares........	3	3,750	0	0	Jan. 10	By *Grant, Wood & Co., Vendors*—Cash portion of the purchase consideration...	5	5,000	0	0
" 10	,, *Application and Allotment Account*—Sundry Allotment moneys......	3	20,100	0	0	Feb. 2	,, Balance carried down.....	√	56,000	0	0
" 11	Sundry Allotment moneys......	3	6,150	0	0						
" 10	,, *Grant, Wood & Co., Vendors*—Cash Balance received from them	J.	1,000	0	0						
Feb. 1	,, *First Call Account*—Sundry calls received	4	29,450	0	0						
" 2	Sundry calls received	4	550	0	0						
		£	61,000	0	0			£	61,000	0	0
1909. Feb. 2	To Balance brought down	√	56,000	0	0						

GRANT, WOOD & CO., LTD.

JOURNAL

			£	s.	d.	£	s.	d.
1909.								
Jan. 8	Sundries Dr.							
	To Sundries, viz.—							
	Cash	C.B.	1,000	0	0			
	Stock	6	18,000	0	0			
	Debtors	7	29,000	0	0			
	Premises	8	14,000	0	0			
	Goodwill	9	25,000	0	0			
	Sundry Creditors	10				12,000	0	0
	Grant, Wood & Co. (Vendors)	5				75,000	0	0
	For assets, liabilities, and purchase consideration on taking over the business of the late firm of Grant, Wood & Co. pursuant to the purchase agreement of December 31, 1908.							
			£87,000	0	0	£87,000	0	0
8	Application and Allotment Account ......Dr.	3	30,000	0	0			
	To Share Capital Account	1				30,000	0	0
	For 10*s.* per share due on application and allotment on 60,000 shares allotted this day.							
10	Grant, Wood & Co. (Vendors) ......Dr.	5	70,000	0	0			
	To Sundries, viz.—							
	Share Capital	1				60,000	0	0
	5 per cent. Debentures	2				10,000	0	0
	For shares and debentures issued to the vendors and credited as fully paid up in part settlement of the purchase consideration, pursuant to the agreement of December 31, 1908.							
Feb. 1	First Call Account......Dr.	4	30,000	0	0			
	To Share Capital Account	1				30,000	0	0
	For 10*s.* per share on 60,000 shares allotted to the public, due February 1.							
			£130,000	0	0	£130,000	0	0

GRANT, WOOD & CO., LTD.

LEDGER

1 Share Capital Account 1

Dr.			£	s.	d.		Cr.		£	s.	d.
1909.						1909.					
Feb. 2	To Balance carried down, 120,000 shares of £1 each....	√	120,000	0	0	Jan. 8	By Application and Allotment Account, 10s. per share on 60,000 shares allotted to the public.........	J.	30,000	0	0
						,, 10	,, Grant, Wood & Co., 60,000 fully paid shares allotted the vendors............	J.	60,000	0	0
						Feb. 1	,, First Call Account, 10s. per share (balance) due on 60,000 shares allotted to the public.........	J.	30,000	0	0
		£	120,000	0	0			£	120,000	0	0
						1909. Feb. 2	By Balance brought down, 120,000 shares of £1 each............	√	120,000	0	0

2 Five per cent. Debentures Account 2

Dr.							Cr.		£	s.	d.
						1909.					
						Jan. 10	By Grant, Wood & Co., £10,000 Debentures issued as part of purchase consideration	J.	10,000	0	0
								£	10,000	0	0

3 Application and Allotment Account 3

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
Jan. 8	To Share Capital Account, 10s. per share on 60,000 shares allotted to the public..........	J.	30,000	0	0	Jan. 5	By Cash, Sundry Application Deposits.........	C.B.	3,750	0	0
						,, 10	,, Cash, Sundry Allotment moneys	C.B.	20,100	0	0
						,, 11	,, Cash, Sundry Allotment moneys	C.B.	6,150	0	0
		£	30,000	0	0			£	30,000	0	0

4 First Call Account 4

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
Feb. 1	To Share Capital Account, 10s. per share on 60,000 shares allotted to the public.........	J.	30,000	0	0	Feb. 1	By Cash, sundry calls......	C.B.	29,450	0	0
						,, 2	,, Cash, sundry calls......	C.B.	550	0	0
		£	30,000	0	0			£	30,000	0	0

5 Grant, Wood & Co. (Vendors) 5

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
Jan. 10	To Cash........	C.B.	5,000	0	0	Jan. 8	By Sundries, purchase consideration as per agreement of 31/12/08.......	J.	75,000	0	0
,, 10	,, Share Capital Account, shares allotted as fully paid............	J.	60,000	0	0						
,, 10	,, 5 per cent. Debentures Account, Debentures allotted as fully paid...	J.	10,000	0	0						
		£	75,000	0	0			£	75,000	0	0

6 Stock Account 6

Dr. Cr.

			£	s.	d.						
1909.											
Jan. 8	To Sundries, Stock taken over............	J.	18,000	0	0						
		£	18,000	0	0						

7 **Sundry Debtors** **7**

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.											
Jan. 8	To Sundries, Sundry Debtors taken over............	J.	29,000	0	0		*Note.*—Accounts would, of course, be opened for each Debtor comprised in this total.				
		£	29,000	0	0						

8 **Premises** **8**

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.											
Jan. 8	To Sundries, Premises taken over...	J.	14,000	0	0						
		£	14,000	0	0						

9 **Goodwill Account** **9**

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.											
Jan. 8	To Sundries, cost price of goodwill......	J.	25,000	0	0						
		£	25,000	0	0						

10 **Sundry Creditors** **10**

Dr. Cr.

			£	s.	d.				£	s.	d
						1909.					
	Note.—Accounts would be opened for each Creditor comprised in this total.					Jan. 8	By Sundries, Sundry Creditors assumed as part of the purchase consideration.....	J.	12,000	0	0
								£	12,000	0	0

GRANT, WOOD & CO., LTD.

Dr. **BALANCE SHEET, as on February 2, 1909** Cr.

LIABILITIES.		£	s.	d.	ASSETS.	£	s.	d.
Share Capital authorized— 150,000 shares of £1 each £150,000					Goodwill Account	25,000	0	0
Share Capital issued— 60,000 Shares issued to the public for cash £60,000 60,000 Shares issued to the vendors and credited as fully paid £60,000	120,000	120,000	0	0	Premises Account	14,000	0	0
5 per cent. Debentures		10,000	0	0	Stock of Goods	18,000	0	0
Sundry Creditors		12,000	0	0	Sundry Debtors	29,000	0	0
					Cash at Bank	56,000	0	0
£		142,000	0	0	£	142,000	0	0

It has already been mentioned that the Share and other Capital transactions of a Company are passed through the financial books of account as far as possible in totals.

Separate statistical books and registers are kept for the purpose of recording the details of these matters, also in order to safeguard the various members' interests and holdings *inter se*. Such books are termed "**Share** (or **Debenture**) **Registers**"; in them an account is opened for each individual holder, and separate registers, or sets of registers, are kept for each class of Share or Stock. The keeping of Share Registers is obligatory under the Companies (Consolidation) Act, 1908, and the register must be open for public inspection during business hours upon the payment of a small fee.

A form of Share Register is appended containing a specimen account of a shareholder named Henry Norman. He applied on January 6, 1909, for 1,100 shares in Grant, Wood & Co., Ltd. (see previous example), paying 1*s.* per share deposit; 1,000 shares were allotted to him, and the allotment moneys and first call were duly paid on the respective due dates. This member bought a further 2,000 shares in the open market, at a later date, and the transfer deed was duly registered and approved by the Board of Directors on March 6, 1909; the whole 3,000 shares were subsequently sold by Henry Norman, the transfer for 1,500 of them being approved by the Board on April 10, 1909, and the transfer for the remaining 1,500 on April 16, 1909.

GRANT, WOOD & CO., LTD.

SHARE REGISTER

Name of Member: HENRY NORMAN. *Occupation:* Chartered Accountant. *Date of commencing to be a Member:* January 8, 1909.
Address: 1754 Cannon Street, London, E.C. *Date of ceasing to be a Member:* April 16, 1909.

SHARES DISPOSED OF.									SHARES ACQUIRED.										BALANCE.			
Date.	No. of Transfer Deed.	Folio in Transfer Register.	No. of Shares.	Distinctive Numbers of Shares.		Amount of Capital paid up.			Date.	No. of Allotment or Transfer.	No. of Shares.	Distinctive Numbers of Shares.		Details.	Folio.	Amount of Capital paid up.			Balance.			
				From	To	£	s.	d.				From	To			£	s.	d.	Shares.	Capital paid up. £	s.	d.
									1909.													
									Jan. 6					Cash, Application Money...	C.B. 94	55	0	0		55	0	0
									,, 8	Allotment 39	1,000	34001	35000	Allotted......	A.B. 17				1,000	55	0	0
									,, 10					Cash, Allotment Money..	C.B. 109	445	0	0	1,000	500	0	0
									Feb 1					Cash, First Call......	C.B. 171	500	0	0	1,000	1,000	0	0
1909.									Mar. 6	Transfer 121	2,000	72096	74095	Transferred.	T.R. 5	2,000	0	0	3,000	3,000	0	0
Apr. 10	207	10	1,500	34001 72096	35000 72595	1,500	0	0											1,500	1,500	0	0
,, 16	212	11	1,500	72596	74095	1,500	0	0														
			3,000			£3,000	0	0			3,000					£ 3,000	0	0				

It is to be noted that each transaction in the above form affects the balance either of capital paid up or shares, and that the balance column requires to be entered up after each transaction.

The particulars at the head of the account are required for the annual list of members, and in order to comply with the requirements of the Companies (Consolidation) Act, 1908.

In order to record the particulars of the applications received in response to the offer of Shares for public subscription by a Company, a separate Statistical Book (or series of loose sheets), called an "**Application and Allotment Book**" (or series of sheets), is employed. These records contain the history of each application from the time it was first received until the Share Registers are compiled subsequent to the allotments having been duly made; it is from the Application and Allotment Book that the Share Registers are written up as regards the names of allottees, and the numbers and distinctive numbers of the shares allotted to them. The separate sums of cash paid by applicants are "posted" from the Cash Book to the credit of the allottees' accounts in the Share Register, although such "posting" forms no part of the double entry in the Company's books of account, the credit in total to the Application and Allotment Account in the Ledger, already described, being the correct contra entry for the debit in the Cash Book.

A specimen page of the "Application and Allotment Book," of Grant, Wood & Co., Ltd., appears on p. 267.

In the first instance the applications are entered in the above book from the application forms themselves as received from the Company's Bankers, and the book is then submitted to the Board of Directors for consideration. Shares when allotted are entered in the "Number of Shares Allotted" column, and the book is thereupon signed by the chairman of the board for identification purposes.

The work attached to transfers of Shares as between vendors and purchasers forms a considerable portion of the Secretary's duties in a large Company. Particularly is this the case where the business of the Company is of a nature which attracts investors with speculative instincts, such, for instance, as a gold mine. In the case of Companies of this class the "Transfer Department" and its staff is frequently far larger than the ordinary Counting House section of the office.

For the preliminary record of transfers a "**Transfer Register**" is kept, which is written up from the Transfer deeds themselves, and, after the approval of each individual transfer by the Board, serves as a posting medium, somewhat in the nature of a Journal, for the subsequent effecting of the necessary entries in the Share Register in the accounts kept both for the seller of

GRANT, WOOD & CO., LTD.

APPLICATION AND ALLOTMENT BOOK

Date.	Number of Application.	Name of Applicant.	Address.	Occupation.	Number of Shares Applied for.	Amount of Deposit paid upon Application. £	s.	d.	Number of Shares Allotted.	Distinctive Numbers of Shares Allotted. From	To	Total Amount due on Application and Allotment. £	s.	d.	Amount of Deposit (if any) Returnable. £	s.	d.	Further Sum due on Allotment. £	s.	d.	Folio in Share Register.	Allotment Money. Cash Book Folio.	Date Paid.
1909.			Brought	forward...	40,000	2,000	0	0	34,000			17,000	0	0	100	0	0	15,100	0	0			1909.
Jan. 6	39	*Norman*, Henry*	1754 Cannon Street, London, E.C.	Chartered Accountant	1,100	55	0	0	1,000	34001	35000	500	0	0	—	–	–	445	0	0	172	109	Jan. 10
,, 6	40	*Brown*, Joseph	Margate, Kent	Farmer	100	5	0	0	10	35001	35010	5	0	0	—	–	–	—	–	–	173	—	—
,, 6	41	*Harris* Enos	121 Houndsditch, E.C.	Furrier	1,000	50	0	0	80	35011	35090	40	0	0	10	0	0	—	–	–	174	—	—
,, 6	42	*Cavendish*, Sir Percival Grosvenor	990 Piccadilly, W.	Baronet	200	10	0	0	200	35091	35290	100	0	0	—	–	–	90	0	0	175	111	Jan. 11
,, 6	43	*Smith*, John	1346 Laburnum Avenue, Tooting	Clerk	20	1	0	0	20	35291	35310	10	0	0	—	–	–	9	0	0	176	110	Jan. 10
			Carried	forward...	42,420	£2,121	0	0	35,310	(*Signed*) ISIDORE GRANT,	*Chairman*	£17,655	0	0	£110	0	0	£15,644	0	0			

* This allotment relates to the illustration given on p. 272.

the shares (**Transferor**) and the purchaser of them (**Transferee**).

A form of Transfer Register is appended, and the purchase and sales of Shares in Grant, Wood & Co., Ltd. (cf. *supra*), made by Henry Norman have been entered in it by way of illustration. It is desirable that the entries of transfers in this book should be initialed by the Chairman of the Board Meeting at which they are approved.

A form of Share transfer, embodying the purchase by Henry Norman of two thousand Shares in Grant, Wood & Co., Ltd., is given on p. 270.

When applying for shares in a Limited Company the applicant must fill in an official "**Form of Application,**" which, together with a remittance for the necessary deposit, must be transmitted to the Company's bankers. The latter retain the form of application for transmission in due course to the Company, and fill in, detach, and hand, or post, to the applicant the form of receipt for the application deposit which is annexed to the application form.

Upon the Directors allotting Shares a "**Letter of Allotment**" is sent by the Secretary to the applicant, informing him that the allotment has taken place, and requesting the payment of the allotment money to the Company's bankers.

Specimen forms of the above documents are on pp. 271 and 272, the details inserted being those relating to the application by Henry Norman for Shares in Grant, Wood & Co., Ltd., as in the foregoing illustration. For each "call" a "**Call Notice,**" with form of receipt annexed, is sent by the Secretary. In those cases where no allotment of shares has been made by the Directors, a formal intimation to that effect, called a "**Letter of Regret,**" is sent to the unsuccessful applicant together with a cheque for the deposit made by him upon application. Specimen forms of a Call Notice and Letter of Regret appear on pp. 273 and 274 respectively.

As soon after the allotment of Shares as is convenient, and in any event before a "**Special Settlement**" (a day for discharging bargains in the Company's shares) can be granted to the Company by the Committee of the London Stock Exchange, the **Share Certificates** must be ready for delivery to the shareholders. These certificates are formal statements, issued under the Company's seal, setting

GRANT, WOOD & CO., LTD.

TRANSFER REGISTER

Number of Transfer.	Date Transfer Lodged.	Date of Transfer Deed.	Transferor's Name.	Transferor's Address.	Transferor's Occupation.	Transferor's Folio in Share Register.	Shares Transferred: Number.	Amount per Share paid.	Capital paid up, £	s.	d.	Distinctive Numbers: From	Distinctive Numbers: To	Transferee's Name.	Transferee's Address.	Transferee's Occupation.	Transferee's Folio in Share Register.	Number of New Certificate.
	1909.	1909.																
121	Mar. 6	Mar. 5	*Jones*, Owen	Llantrysant	Farmer	69	2000	£1	2,000	0	0	72096	74095	*Norman*, Henry	1754 Cannon St., E.C.	Chartered Accountant	172	1046
207	April 9	April 8	*Norman*, Henry	1754 Cannon St., E.C.	Chartered Accountant	172	1500	£1	1,500	0	0	34001 72096	35000 72595	*Higgins*, Abel	Aberystwith	Saddler	428	1362
212	April 15	April 8	*Norman*, Henry	1754 Cannon St., E.C.	Chartered Accountant	172	1500	£1	1,500	0	0	72596	74095	*Morris*, John James	Westmeath, Sleaford	Esquire	461	1382
														(*Signed*)	ISIDORE	GRANT, *Chairman.*		

SHARE TRANSFER.

Impressed Stamp £10.

Certificate of the within mentioned 2,000 *Shares* has been lodged at the Company's Office, ROBERT WOOD, *Secretary.*

I, Owen Jones, of Llantrysant, Farmer, in consideration of the sum of [See Note at Foot.] *Two thousand pounds* paid by *Henry Norman, of* 1754 *Cannon Street, E.C., in the City of London, Chartered Accountant,* hereinafter called the said Transferee,

Do hereby bargain, sell, assign and transfer to the said Transferee:—*Two thousand* (2,000) *fully paid shares of one pound each, numbered* 72096 *to* 74095 *inclusive,* of and in the undertaking called *Grant, Wood and Company, Limited.*

To hold unto the said Transferee, *his* Executors, Administrators and Assigns, subject to the several conditions on which *I* held the same immediately before the execution hereof; and *I* the said Transferee do hereby agree to accept and take the said *Shares* subject to the conditions aforesaid.

As Witness our Hands and Seals, this *fifth* day of *March,* in the Year of our Lord One thousand nine hundred and *nine.*

Signed, sealed, and delivered, by the above named *Owen Jones,* in the presence of

Witness's Signature,* *Michael Macgillicuddy.*
Address, *Llantrysant, Wales.*
Occupation, *Farm Bailiff.*

OWEN JONES. SEAL

Signed, sealed, and delivered, by the above named *Henry Norman,* in the presence of

Witness's Signature,* *N. Howell.*
Address, 1754 *Cannon Street, London, E.C.*
Occupation, *Audit Clerk.*

H. NORMAN. SEAL

Signed, sealed, and delivered, by the above named...... ....in the presence of

Witness's Signature*...
Address...
Occupation ....

.... SEAL

Signed, sealed, and delivered, by the above named...................... in the presence of

Witness's Signature*...
Address.. ... .
Occupation ....

.... SEAL

NOTE.—The Consideration-money set forth in a transfer may differ from that which the first Seller will receive, owing to subsales by the original Buyer; the Stamp Act requires that in such cases the Consideration-money paid by the Sub-purchaser shall be the one inserted in the Deed, as regulating the *ad valorem* Duty; the following is the *Clause* in question:—

"Where a Person having contracted for the purchase of any property, but not having obtained a Conveyance thereof, contracts to sell the same to any other Person, and the Property is, in consequence, conveyed immediately to the Sub-purchaser, the Conveyance is to be charged with *ad valorem* Duty in respect of the Consideration moving from the Sub-purchaser"—[54 & 55 Vic., cap. 39 (1891), section 58, sub-section 4].

INSTRUCTIONS FOR EXECUTING TRANSFERS.

* *When a transfer is executed out of Great Britain, it is recommended that the Signatures be attested by H.M. Consul or Vice-Consul, a Clergyman, Magistrate, Notary Public, or by some other person holding a public position—as most Companies refuse to recognize Signatures not so attested. When a witness is a Female she must state whether she is a Spinster, Wife, or Widow; and if a Wife she must give her Husband's Name, Address, and Quality, Profession, or Occupation. The Date must be inserted in Words and not in Figures.*

Form of Application for Shares.

GRANT, WOOD AND COMPANY, LIMITED

Incorporated under the Companies (Consolidation) Act, 1908.

To THE DIRECTORS OF GRANT, WOOD AND COMPANY, LIMITED.

Gentlemen,

Having paid to your Bankers, The London and Eastern Bank, Limited, the sum of £55——, being a deposit of one shilling per share on the number of shares applied for by me hereunder, I hereby apply for ——1,100—— Shares of one pound each upon the terms of a prospectus issued by you and dated the 3rd day of January, 1909, and I hereby undertake to accept such shares or any less number which you may allot to me and to pay all further sums due thereon, and to be bound by the regulations of the Company, and I authorize you to place my name upon the register of members.

Signature of applicant—H. NORMAN.

Full name of applicant—HENRY NORMAN.
Address—1754 Cannon Street, London, E.C.
Occupation—Chartered Accountant.

Date—January 6, 1909.

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894 Lothbury, London, E.C., with a remittance for the deposit of 1s. per share on the shares applied for. Cheques should be made payable to The London & Eastern Bank, Ltd., or *Bearer*, and crossed.

(*Perforation*)

GRANT, WOOD AND COMPANY, LIMITED.

Banker's Receipt for Deposit upon Application for Shares.
(To be detached and returned to applicant.)

Received this 6th day of January, 1909, of *H. Norman* the sum of *Fifty-five pounds*, being 1s. per share upon 1,100 shares applied for in the above Company.

For THE LONDON & EASTERN BANK, LTD.

CHARLES | STAMP 1*d.* | HILL,
Cashier.

£55 : 0 : 0

Letter of Allotment.

GRANT, WOOD AND COMPANY, LIMITED.

Incorporated under the Companies (Consolidation) Act, 1908.

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894 Lothbury, London, E.C., accompanied by a remittance for the amount due on allotment. Cheques should be made payable to The London & Eastern Bank, Ltd., *or Bearer*, and crossed.

484 CORNHILL, LONDON, E.C.
January 8, 1909.

Allotment No. 39.

6*d.*
STAMP

DEAR SIR, (*or* MADAM),

I am instructed by the Directors of Grant, Wood and Company, Limited, to inform you that in response to your application they have allotted you —— 1,000 —— Shares in the capital of the Company.

The total amount due upon application and allotment on 1,000 Shares allotted you is..........	£500 0 0
You have already paid on application for 1,100 Shares..........	55 0 0
Leaving a balance due from you of.........	£445 0 0

which kindly pay to the Company's Bankers, The London & Eastern Bank, Ltd., 894, Lothbury, E.C., forthwith.

Due notice will be given when the Share Certificates are ready for issue and they will then only be delivered in exchange for this letter, accompanied by the receipts for deposit paid upon application, and for the call due on February 1, 1909.

I am, Dear Sir, (*or* Madam),
Yours faithfully,
ROBERT WOOD,
Secretary.

To HENRY NORMAN, Esq.,
1754 Cannon Street, E.C.

Banker's Receipt for Allotment Money.

Received this tenth day of January, 1909, the sum of *Four hundred and forty-five pounds*, due in respect of the above allotment.

For THE LONDON & EASTERN BANK, LTD.

CHARLES | STAMP 1*d.* | HILL,
Cashier.

£445 : 0 : 0

.............(*Perforation*).............

(*This slip to be detached by Bankers and detained by them.*)

GRANT, WOOD AND CO., LTD.

Allotment No. 39.
Amount payable, £445.

Call Notice.

GRANT, WOOD AND COMPANY, LIMITED.

No. 39.

Notice of First Call of 10s. per share, Ordinary Shares (making 20s. per share called up).

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484 CORNHILL, LONDON, E.C.
January 25, 1909.

DEAR SIR, (*or* MADAM),

I beg to give you notice that a First Call of 10s. per Share has this day been made by the Board in accordance with the terms of the Prospectus. On the 1,000 Shares held by you in this Company the call amounts to £500. This amount should be remitted to the Company's Bankers (The London & Eastern Bank, Ltd., 894 Lothbury, E.C.) on or before February 1 next.

I am, Dear Sir, (*or* Madam),
Yours faithfully,
ROBERT WOOD,
Secretary.

To HENRY NORMAN, Esq.,
1754 Cannon Street, E.C.

(This half to be retained by the Bankers.)

.... *(Perforation)* ....

NOTE.—This form must be sent direct to the Company's Bankers, The London & Eastern Bank, Ltd., 894, Lothbury, London, E.C., accompanied by a remittance for the amount due. Cheques should be made payable to The London & Eastern Bank, Ltd., *or Bearer*, and crossed.

GRANT, WOOD AND COMPANY, LIMITED.

No. 39.

Banker's receipt for First Call of 10s. *per share on Ordinary Shares, payable February* 1, 1909 (*making* 20s. *per share called up*).

Received the 1*st day of February*, 1909, from HENRY NORMAN, Esq., the sum of £500 : 0 : 0, being First Call of 10s. per Share due February 1, 1909, on 1,000 Shares in the above Company.

For THE LONDON & EASTERN BANK, LTD.,

JAMES | 1*d.* Receipt Stamp | POUND,
Cashier.

£500 : 0 : 0

(This half, when receipted by the Bankers, must be preserved by the Shareholder, to be exchanged in due course for the Share Certificate.)

Letter of Regret.

GRANT, WOOD AND COMPANY, LIMITED,
484 CORNHILL, LONDON, E.C.
January 8, 1909.

1. *Enclosure.*

To RICHARD COE, Esq., Redhill, Surrey.

Sir,

I regret to inform you that the Directors are unable to allot you any of the Shares of this Company, in compliance with your application for 100 shares of the Company.

I enclose herewith a cheque for £5, being the amount paid by you on the above-mentioned application, and shall be obliged if you will sign the Form of Receipt at the foot of the cheque sent herewith, and present the same for payment through your Bankers.

I am, Sir,
Yours faithfully,
ROBERT WOOD,
Secretary.

No. 3841. LONDON, *January* 8, 1909.

To THE LONDON & EASTERN BANK, LTD.,
894 Lothbury, E.C.

Pay to *Richard Coe, Esq.*, or order, the Receipt below being signed, the sum of *Five pounds.*

For GRANT, WOOD AND COMPANY, LTD.
JAMES BUCHET, *Director.*
ROBERT WOOD. *Secretary.*

£5 : 0 : 0

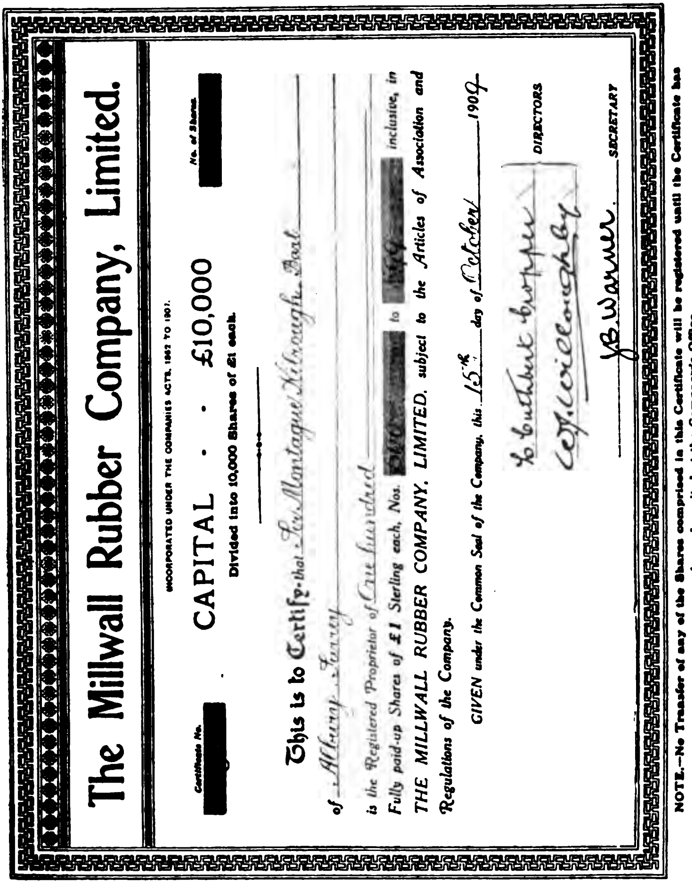
Receipt.

Received of Messrs. Grant, Wood & Co., Ltd., the sum of *Five* pounds, being the amount deposited by me on application for *one hundred* Shares in the same.

RICHARD | 1*d.* Receipt Stamp | COE.

£5 : 0 : 0

forth the holder's name, and the number of Shares of which he is the registered proprietor. Share Certificates are issued to shareholders in exchange for (1) the receipt for the application money, (2) the allotment letter with


The Millwall Rubber Company, Limited.

Certificate No. [redacted]

INCORPORATED UNDER THE COMPANIES ACTS, 1862 TO 1907.

No. of Shares. [redacted]

CAPITAL . . £10,000

Divided into 10,000 Shares of £1 each.

This is to Certify that Rev. Montague Kilbrough Bart

of Albury, Surrey

is the Registered Proprietor of One hundred

Fully paid-up Shares of £1 Sterling each, Nos. to inclusive, in

THE MILLWALL RUBBER COMPANY, LIMITED, subject to the Articles of Association and Regulations of the Company.

GIVEN under the Common Seal of the Company, this 15th day of October 1909

DIRECTORS

SECRETARY

NOTE.—No Transfer of any of the Shares comprised in this Certificate will be registered until the Certificate has been deposited at the Company's Office.

the receipt attached for the allotment money, (3) the first (and any other) call receipts for the calls which may have been made, prior to the issue of the Share Certificates. If any of these documents are missing a "**Letter of Indemnity**" must usually be given to the Company in their place.

No. [redacted] £100.

The Crown Chemical Company,

LIMITED.

Incorporated under the Companies Acts, 1862 to 1900.

Registered Office: 12 FENCHURCH STREET, LONDON, E.C.

Issue of £17,000 First Mortgage Debentures to Bearer,

In 100 Debentures of £100 each, 15 Debentures of £[illegible] each, and 10 Debentures of £[illegible] each,

CARRYING INTEREST AT THE RATE OF SIX PER CENT. PER ANNUM.

DEBENTURE.

1. THE CROWN CHEMICAL COMPANY LIMITED (hereinafter called "the Company,") will, on the 1st day of December 1914 or on such earlier day as the principal monies hereby secured become payable in accordance with the conditions endorsed hereon, pay to the Bearer on presentation of this Debenture the sum of **One Hundred Pounds.**

2. The Company will, in the meantime, pay interest thereon at the rate of 6 per cent. per annum, by equal half-yearly payments on every 1st day of June and 1st day of December, in accordance with Coupons annexed hereto.

3. The Company hereby charges with such payments its undertaking and all its property whatsoever and wheresoever both present and future.

4. This Debenture is issued subject to and with the benefit of the Conditions endorsed hereon, which are to be deemed part of it.

Given under the Common Seal of the Company

the 1st day of May 1909.

SEAL OF THE CROWN CHEMICAL Co LTD

Frederick Downes
[illegible] } *DIRECTORS*

[illegible] *SECRETARY*

A specimen form of a Share Certificate is on p. 275, the Shares in this instance being fully paid. Certifi-

cates are frequently issued before the Shares they represent are fully paid, and in such cases, of course, they only set forth the amount of the calls paid prior to such issue; if further calls are subsequently made, and duly paid, the Share Certificate can be endorsed at the Company's office with a memorandum of such further payments upon surrender of the call receipt.

A specimen form of a "Bearer" Debenture is also given on p. 276, and an Interest Coupon on p. 732.

It has already been stated that Shares cannot be legally issued by a Company except upon the condition that their full face value has been received either in cash or in kind; in other words, the shares of Limited Companies may not be "issued at a discount." There is nothing, however, in Company law which prohibits Companies from selling their shares for *more* than their face value if persons can be found who are willing to purchase them at such enhanced prices. The issue of Shares at a price exceeding their face value is termed an issue "**at a premium**," and the amount of the excess over the face value is known as the "**premium**" on the Shares so issued. It often happens that a Company, in the early stages of its career, makes issues of its Shares at their face or **par** value, and when, in later years, the rising success of the undertaking has had the effect of causing the Company's Shares to command a Stock Exchange quotation in excess of their face value (*e.g.* a £1 share may be quoted at 1¼, or 25*s*.), if further Capital becomes necessary the Company, in such a case, will probably offer any further Shares that it may issue to the public at a premium slightly under the current Stock Exchange quotation for the existing shares (*e.g.* say at 24*s*. per share, a premium of 4*s*. per share). The smaller premium, as compared with the Market quotation, naturally causes the new shares to be sought after, with the result that the public subscription will probably be favourable.

Premiums received on the issue of Shares should be placed to a separate account in the Ledger entitled "**Premiums on Shares Account**," and should, under most circumstances, be allowed to remain there. In the face of the existing legal precedents it cannot be claimed with any certainty that it is legally permissible to treat these premiums as a profit made by the Company, and as capable of distribution by way of dividend among the shareholders, but this procedure, whether legal or not,

would, in most cases, be financially unwise. The premiums so obtained by an issue of Shares are sometimes placed to the "Reserve Account," but, if this course is pursued, it is suggested that they should be put to the credit of a separate Reserve Account, earmarked with the source from which it was derived, and not to the General Reserve Account, otherwise there is danger of their being used for dividend purposes, or for the reduction of the value of Assets, the wastage upon which should have been provided for out of Revenue.

Debentures may, in point of law, be issued either for cash or in exchange for property or services, and for a lesser or greater sum of money or assets than their face value. This apparent anomaly, as compared with the conditions under which shares are issued, arises out of the fact that a Debenture issued by a Company is merely a promise to repay a species of loan, and that the holder of a Debenture Bond is nothing more than a *creditor* (or frequently a mortgage creditor), and is not in any sense a *partner* (shareholder) in the Company.

Premiums received on the issue of Debentures should be placed to a separate account or to a special Reserve Account, as indicated above, when dealing with the issue of Shares. If a Company issues a Debenture at a premium it thereby borrows more than it undertakes to repay, and it is not possible to urge with the same emphasis the objections to the division of these premiums by way of dividend among the shareholders which apply in the case of premiums received upon an issue of Shares. All that can be said is that it is usually financially imprudent to so divide moneys which represent a "capital" receipt at any time before the repayment of the sum borrowed has been effected.

When Debentures are **Issued at a Discount**, that is to say, for a less amount of cash than the amount they undertake to repay at maturity, the "Debentures" Account must be credited with the full amount to be repaid at maturity, this course being essential in order that the full amount of the Company's liability may appear upon the books. The cash (or assets) received will, of course, be debited to Cash (or Assets) Account in the ordinary way, and the "discount," being the difference between the money (or assets) received and the sum undertaken to be repaid, must be debited to an account styled "**Discount on Debentures Account.**" This account should be gradually written off by means of equal periodical transfers to Profit

and Loss Account spread over the term of years for which the issue of Debentures has to run.

In this manner the Loss incurred on the redemption of its borrowings (which is the practical effect to the Company of an issue of Debentures at a discount) becomes spread equally over all those years which have presumably benefited by the employment of the borrowed capital. Of course, if considered expedient, the "Discount on Debentures Account" can be written off over a shorter period than that covered by the "life" of the Debentures which are so issued at a discount.

An example of the issue of Shares at a premium and the issue of Debentures at a discount is subjoined—

Example.—The Brake Manufacturing Company, Ltd., issued on December 31, 1908, 50,000 £1 Ordinary Shares, at a premium of 4*s.* per Share, and £40,000 4½ per cent. First Mortgage Debentures at 94, the Debentures being repayable "at par" (*i. e.* at their full nominal value) on December 31, 1928.

The securities are to be paid for as follows—

	Shares.		Debentures.
On *application*	10*s.* per share (including the 4*s.* premium)		£4 0 0 per cent.
On *allotment*	14*s.* ,,		£90 0 0 ,,
Total.........	24*s.* per share.	Total.........	£94 0 0 per cent.

Show the necessary Journal entries to record the allotments of the two classes of securities and the Company's Balance Sheet after they have taken place. The Allotment duly took place on January 5, 1909, applications having been received for the exact amount of Shares and Debentures offered to the public.

JOURNAL

1909.		£	*s.*	*d.*	£	*s.*	*d.*
Jan. 5	Application and Allotment Account (Shares)	60,000	0	0			
	Dr. to Share Capital Account				50,000	0	0
	,, Premiums on Shares Account..				10,000	0	0
	For the total amount due from sundry shareholders on application for, and allotment of, 50,000 £1 shares at the price of 24*s.* per share.						
,, 5	Sundries Dr.						
	To 4½ per cent. Debentures (1928) Account................................				40,000	0	0
	Viz. Application and Allotment Account (Debentures)	37,600	0	0			
	Discount on Issue of Debentures Account	2,400	0	0			
	For cash receivable and discount on issue of £40,000 Debentures.						
		£100,000	0	0	£100,000	0	0

THE BRAKE MANUFACTURING COMPANY, LTD.

BALANCE SHEET as on January 7, 1909

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Share Capital Issued—50,000 Shares of £1 each	50,000	0	0	Cash	97,600	0	0
Premiums received on Issue of Shares	10,000	0	0	Discount on Issue of £40,000 4½ per cent. Debentures, repayable 1928	2,400	0	0
4½ per cent. First Mortgage Debentures, repayable December 31, 1928	40,000	0	0				
	£100,000	0	0		£100,000	0	0

Forfeited Shares

In cases where a Company issues Shares which are to be paid for in instalments (*e. g.* so much on application, so much on allotment, and the balance as and when "called up" by the Directors), it frequently happens that some shareholders fail to pay all the instalments due from them.

In such a case the Company usually, under a normal set of Articles of Association, has power to treat the Shares as **forfeited.**

A "forfeiture" of Shares embodies the following features—

1. The defaulting shareholder ceases to be a member.
2. His Shares in the Company lapse; whatever moneys have been paid on the Shares prior to the forfeiture become the absolute property of the Company.
3. The forfeiture is usually "without prejudice to the right of the Company to sue the defaulting member for the calls he has failed to pay," and such member can generally therefore be sued for the calls notwithstanding the fact that he has ceased to be a member.
4. The Company may reissue to any person the Shares which it has declared forfeited. It may issue them to that person on his undertaking to pay up the amounts unpaid by the previous holder (in which case the person so taking the forfeited Shares gets the benefit of the sums paid by the defaulter), or for such

higher price as the intending applicant for the Shares may be willing to give. The only restriction as regards the price of reissue is that the Company must have received from the defaulting member and the subsequent allottee, taken together, not less than the full face value of the Share.

The forfeiture of Shares is a procedure of a penal nature as regards the defaulting member, and such measures, preliminary to forfeiture, as are prescribed by the Company's Articles of Association must be followed out with the utmost care, otherwise the courts may hold the forfeiture to be invalid.

It will be remembered, that as regards the book-keeping of a Company, the instalments due on Shares (whether for the moment in the Company's coffers, or outstanding as debts due to it from its members), are all credited in the Share Capital Account at the time of their falling due, and in anticipation of their receipt ultimately. If, therefore, any members fail to fulfil their obligations to contribute the instalments of capital due from them, entries must be passed to record the default.

At the time of the forfeiture of a member's Shares such sums as he has paid on them will be in the Company's possession (debited to cash), and the amounts of which he is in default will be standing to the debit in the appropriate call account (representing the debt due from him to the Company), and the total of these two items will have been credited, as already explained, to the Share Capital Account.

Upon the forfeiture of Shares, therefore, the entries required are as under—

Firstly. The Share Capital Account must be debited with the *whole* amount paid or due by the defaulting member on his Shares; this entry is needed because the issue of the Shares is now cancelled by the forfeiture.

Secondly. "Forfeited Shares" Account or "Amounts received on Forfeited Shares" Account must be credited with whatever amount had been paid on the Shares prior to forfeiture.

This sum practically represents a profit made by the Company, and so appears as a credit balance.

Thirdly. The amounts due from the defaulter on his Shares but not paid must be credited to the respective Call Accounts upon which the liability of the shareholder

appears to the debit. The effecting of this credit entry has the result of reversing the debit previously made in these accounts when the unpaid calls originally became due; *e.g.* if a member originally applied for 100 £1 shares and paid in all £75 thereon, and the Shares were subsequently forfeited owing to the nonpayment of £25 first call, the position at the date of forfeiture would be that £100 would have been credited to the Share Capital Account and that £25 would appear to the debit on the First Call Account.

The entry requisite to record the forfeiture would consequently be as follows—

Debit Share Capital with £100 (reversing the previous credit entry),
Credit Forfeited Shares Account with £75 (for the £75 previously paid on them, which £75 has now become the Company's property),
Credit First Call Account with £25 (thus causing the pre-existing debit balance of £25 on this account to disappear).

The necessary Journal entry would take the following form—

			£	s.	d.	£	s.	d.
	Share Capital ....Dr.		100	0	0			
	To Sundries, viz.—							
	Forfeited Shares Account........................					75	0	0
	First Call Account					25	0	0
	In respect of 100 Shares, 15*s*. paid, now forfeited by the Board owing to nonpayment of the First Call of 5*s*. per Share.							

Upon the reissue of any forfeited Shares the entry passed at the time of their forfeiture must be reversed; and, in making this entry, any payment made by the second allottee, over and above the amount of the calls left unpaid by the original allottee, must be placed to "Premium on Shares" Account. The amount of calls left unpaid at the date of forfeiture may be redebited at the time of reissue to the particular call account (or accounts) in question, or it may be debited in company with any premiums paid to the second allottee's personal account. *E.g.* If the Board of the Limited Company already referred to decides to reissue to A. Brown the 100 shares forfeited in the example given above, A. Brown paying the 5*s*. call left unpaid by the original allottee, plus a premium

on reissue of 7*s.* 6*d.* per Share, the requisite Journal entry would be—

		£	s.	d.	£	s.	d.
Sundries Dr.							
To Sundries—							
Forfeited Shares Account....................		75	0	0			
A. Brown..		62	10	0			
Share Capital Account..........................					100	0	0
Premium on Shares Account..................					87	10	0
For 100 Shares previously forfeited, 15*s.* per Share paid, now reissued to A. Brown at a premium of 7*s* 6*d.* per Share, to be paid by him in addition to the outstanding call of 5*s.* per Share.							

Any amounts which have accrued to the Company on Shares forfeited by it should be shown in the Balance Sheet as a separate item on the Liability side: the amount should neither be merged in the Capital nor credited in the Profit and Loss Account, but should be regarded as an item held in suspense pending the possible reissue of the Shares at a later date.

A Company almost invariably sustains, at its inception, various items of expense arising out of its formation and issue, and these expenses are commonly treated in a somewhat special manner, being debited to an account styled "**Preliminary Expenses Account**"; this account is, for the moment, regarded as a fictitious Asset Account, and is written off to the Profit and Loss Account as rapidly as possible in instalments spread over the first few years of the Company's existence. It is preferable to write off the Preliminary Expenses of a Company over the first three years, if practicable.

The expenses which are thus treated usually comprise some or all of the following—

1. Legal and other fees and stamps paid on the incorporation of the Company, and on the transfer to it of any property which it was formed to acquire.
2. Cost of printing and circulating the prospectus.
3. Cost of printing and circulating the allotment letters and call notices, including the impressed stamps on the former.
4. Cost of advertising the prospectus.
5. "Underwriting commission" paid on any Shares or Debentures underwritten (*i.e.* the subscription

of which has been guaranteed by financiers and others, termed "underwriters"), and commission paid to persons procuring underwriting.

6. "Brokerage" paid to stockbrokers introducing applicants whose application forms bear the broker's name.
7. Cost of the Share Certificates, Debenture Certificates, etc.

All Companies incorporated under the Companies (Consolidation) Act, 1908, are required to hold annual meetings of members at which audited accounts must be submitted. Dividends, when earned, are declared at these meetings; and, in addition, the Board frequently has power to declare interim dividends on its own responsibility. An "**Interim Dividend**" is one which is declared at an intermediate date between the commencement and close of a financial period, and should only be declared when the profits are deemed to be ample. Dividends may not be declared unless sufficient profits have been made to cover them, but Debenture interest, being interest on a loan, must always be paid whether profits are sufficient to cover the amount due or not, otherwise the Company will "make a default," and thereby entitle the Debenture holders to enforce their security.

Annual returns and summaries, containing the names, addresses, and holdings of the shareholders, together with other particulars, have to be transmitted to the Registrar of Joint Stock Companies, made up to a date fourteen days after the first annual meeting in each year.

In addition to the **Share Register** (Register of Members) a Company, under the Act of 1908, is required to keep—

1. **Register of Directors,**
2. **Register of Mortgages and Charges,**
3. **Minute Book.**

Lists of allotments, copies of the Debenture Bonds issued, and copies of the annual summary are also requisite by law. Over and above these requirements the exigencies of administration usually demand that a Company shall keep various Statistical Books, together with a "Director's Attendance Book," "Transfer Register," "Agenda Book," and other books concerning the secretarial department.

When, in the fulness of time, a Company has come to

the end of its period of activity, whether through gradual decline or unfavourable environment, internal mismanagement or lack of success, or (a most frequent cause in the case of mining companies) having fruitlessly spent all its money, the services of a "**Liquidator**" are called in to wind up the concern, pay its creditors as far as the Assets will permit, and make such return of capital to the shareholders as may be possible under the circumstances. In cases where a Company has issued Mortgage Debentures, the holders of the latter are entitled to apply for the appointment, by the High Court, of an officer termed a "**Receiver**" (usually a professional accountant, nominated for the purpose), whose duty it is to seize, and hold, on their behalf, such portions of the Company's property as are charged by the Debentures, or by the Trust Deed covering them, and to realize the property under the directions of the Court in order to effect the distribution of its proceeds among the Debenture holders.

In result there are sometimes two officials, the Liquidator and the Receiver, concerned in winding up an insolvent concern. In such a case the Receiver for the Debenture holders is usually able to seize the larger portion of the Assets under the power conferred by the Debentures, and the Liquidator has very little to do until the Debentures have been paid off. The offices of Receiver and Liquidator are sometimes advantageously combined in one appointee, and it has been judicially stated that the appointment of one person to hold the two offices is desirable.

A Liquidator may be appointed either by the High Court or by the County Court, in a "**Compulsory**" winding up, or by the shareholders of the Company, in a "**Voluntary**" winding up. Complicated official forms are provided for the account keeping of the "Compulsory" Liquidator, but the "Voluntary" Liquidator's accounts may be compiled and rendered much according to his discretion.

At the close of a voluntary liquidation the Liquidator should render, in summarized form, an account showing the process of winding up; the statement prepared for this purpose is rendered in the form of a Cash Account. An illustration of such an account is subjoined.

Example.—The Alpha Steamship Company, Ltd., went into voluntary liquidation on January 4, 1909. From the following particulars

prepare the Liquidator's Realization Account for submission at the final meeting of Shareholders.

	£	s.	d.
Proceeds of sale of ss. *Alpha*	5,027	16	0
Proceeds of sale of materials and stores	109	17	2
Sundry Debts recovered	269	16	9
Sundry Assets realized	11	0	0
Law Costs	102	17	9
Liquidator's remuneration and disbursements	157	10	0
Insurance on sundry assets	1	0	4
General Expenses of liquidation	24	17	6
Unsecured Creditors paid in full	642	19	0
Debentures paid in full— Principal, £1,500; accrued interest, £39 5*s*. 4*d*.	1,539	5	4
Preference Shares— Capital repaid in full	2,500	0	0
Ordinary Shares— Returned to Shareholders at rate of 10*s*. per share on 900 shares of £10 each	450	0	0

THE ALPHA STEAMSHIP COMPANY, Ltd., *in Liquidation*

Liquidator's Summary of Accounts

Receipts.		£	s.	d.	Payments.		£	s.	d.
Proceeds of Property realized—					Expenses of Liquidation—				
					Law Costs		102	17	9
ss. *Alpha*		5,027	16	0	Liquidator's Fee and Disbursements		157	10	0
Stores and Materials		109	17	2	Insurance		1	0	4
Sundry Debtors		269	16	9	General Expenses		24	17	6
Sundry Assets		11	0	0					
					Debentures repaid in full		1,500	0	0
					Interest thereon		39	5	4
					Unsecured Creditors paid in full		642	19	0
					Capital returned to Shareholders—				
					Preference Shares, Capital repaid in full		2,500	0	0
					Ordinary Shares, return of 10*s*. per Share on 900 Ordinary Shares of £10 each		450	0	0
	£	5,418	9	11		£	5,418	9	11

Shareholders can obtain further information on application to the undersigned,

HENRY HARROW, F.C.A.,
Liquidator.

849 St. William's Chambers, London, E.C.,
June 30, 1909.

EXERCISES

16A.

1. What is meant by an "Incorporated Company"?

2. Compare (1) Limited Liability Companies, (2) Unlimited Liability Companies, (3) Commercial partnerships, as regards the position of their members.

3. Explain the terms: Authorized Capital, Issued Capital, Paid-up Capital, Memorandum of Association.

4. What are the numerical limits of membership—

   (*a*) Of banking partnerships,
   (*b*) Of other partnerships?

5. What is meant by a "private company"? Discuss its advantages.

6. Explain the terms: Shares, Preference Shares, Cumulative Preference Shares, Ordinary Shares, Deferred Shares. Out of what circumstances do the latter usually arise?

7. What is the difference between Shares and Stock?

8. What are "Debentures"? Discuss briefly the legal position of the Debenture holders of a Company as compared with the shareholders' legal position.

9. Explain the terms: Directors, Prospectus, Allotment.

10. How does a holder of a Debenture Bond payable to Bearer obtain payment of his periodical interest?

16B.

1. Explain in detail the procedure and the transactions consequent upon a Company making a public issue of a portion of its Share capital.

2. Can (*a*) Shares and (*b*) Debentures be issued in exchange for a consideration other than cash? Can either of these classes of securities be issued "at a discount"? Explain what is meant by the last expression.

3. What is meant by issuing Shares and Debentures "at a premium"? How should such premiums be treated in the books of a Company?

4. Discuss the question of Goodwill in its relation to Joint Stock Company accounts.

5. What books are kept by a Company to record the interests in it of its various members? Do such books form an integral part of its system of accounting?

6. Explain the nature of a "Forfeiture of Shares for non-payment of calls," and the subsequent "Reissue" of such shares "at a premium."

7. Can (1) Dividends on shares, (2) Debenture interest, be legally paid by a Company which is losing money continuously on its trading operations and possesses no accumulated profits earned in past years?

8. Explain generally what is meant by (*a*) Compulsory liquidation, (*b*) Voluntary liquidation.

9. What is a "Receiver for Debenture holders"? What are his duties?

10. What is the maximum of the liability of a member of an Unlimited Liability Company?

16c.

The Exotic Mining Company, Ltd., with an authorized capital of £50,000, undertook on June 1, 1909, to buy the "Exotic" and "Eldorado" gold mining claims from the General Agency Company, Ltd., for £10,000, payable as to £1,000 in cash, as to £4,000 in fully-paid Ordinary Shares, taken at par, and as to £5,000 in 6 per cent. First Mortgage Debentures.

On June 7, 1909, the Company offered for subscription 40,000 £1 Ordinary Shares at a premium of 2*s.* per share, payable 5*s.* per share (including 2*s.* premium) on application, 5*s.* per share on allotment, and the balance of 12*s.* per share on July 15, 1909.

Applications were received for 35,950 shares, all of which were allotted on June 10, 1909. All allotment moneys were duly paid on June 14, 1909.

The purchase agreement was carried out on June 10, 1909, the requisite allotments of Shares and Debentures and the payment of cash then being made.

All shareholders, except one holding 100 shares, duly paid the calls due on July 15.

The shares belonging to the defaulting member were declared to be forfeited by the Board on July 31, and were reissued by the Board on August 7 to the chairman (the Hon. Hugo Porter, M.P.), on his paying in cash the 12*s.* per share left unpaid by the original allottee.

Pass these transactions through the Company's books of account, and prepare a Balance Sheet at their conclusion.

16d.

Robert Coe, of Fairvale, Somerset, potato grower, applied on January 1, 1909, for 1,000 shares in the Erratic Motor Omnibus Company, Ltd., issued at par, paying 2*s.* per share on application.

These 1,000 shares were allotted to him on January 3, 1909, numbered 180365 to 181364, and he duly paid the allotment instalment of 8*s.* per share on January 4.

On January 5 he bought a further 1,000 shares, 10*s.* paid, numbered 24062 to 25061 on the Stock Exchange at a price of 11*s.* per share, free of stamps and brokerage, the transfer for the same being lodged with the Company on January 5, and approved by the Board the same day.

On January 16 he paid the First Call of 10*s.* a share on his 2,000 shares, thus making them fully paid.

On February 5 he sold the whole of his holding on the Stock Exchange at 18*s.* per share, free of stamps and brokerage, the transfer being lodged with the Company and approved by the Board on February 10.

Show a ruling of a Share Ledger and a Transfer Register for the Company, inserting in the latter the details of the foregoing transactions as far as they apply, and giving in the former R. Coe's account as a member of the Company.

Also show R. Coe's Investment Account as it would appear in his own Ledger, assuming that the purchases and sales of shares were paid for on the day of their occurrence.

Answers.—

16c. Balance Sheet totals, £48,545; Cash Balance, £38,545.
16d. R. Coe's Investment Account: Loss, £250.

CHAPTER XVII

INCOME TAX

The subject of Income Tax is so wide and comprehensive that any attempt to deal exhaustively with it is quite beyond the scope of this treatise. It is proposed, therefore, to devote the present chapter to a brief consideration of some of the broad principles which govern the administration of the tax rather than the details of its assessment, which could only be adequately discussed at a far greater length than is available here. Much that is set out hereunder may appear to some readers to be unnecessary explanation of elementary propositions. On the other hand, so many examinees exhibit such a marked lack of correct knowledge of elementary detail in the subject that it has been considered necessary to devote some space to the consideration of a few of the most salient points.

The *Income Tax Act*, 1799, introduced by Mr. Pitt, imposed a tax of 10 per cent. on property and employments calculated upon the basis of the income for the year. In 1803 the tax was rearranged by Mr. Addington, and the *Income Tax Act*, 1803, was passed. In this Act the tax was divided into five Schedules, which, with modifications which will be considered later, still form the basis upon which the tax is collected at the present time. These Acts were followed by the *Income Tax Acts* of 1805 and 1806.

Shortly after the Battle of Waterloo the tax was abolished, but was reimposed by Sir Robert Peel in 1842. The *Income Tax Act*, 1842, still remains the main enactment, the regulations of which, as amended from time to time, govern the assessment and collection of the tax at the present time. In 1853 Mr. Gladstone passed the *Income Tax Act*, 1853. Under this Act the tax was extended to Ireland, and several important provisions were added which render this Act second in importance only to that of 1842. Subsequently to the Acts enumerated above

many detailed adjustments and alterations have been made in Income Tax law, the more important of which are embodied in the *Finance Acts of* 1894, 1897, 1898 and 1907. Under the Finance Act of 1907 an important relief was granted in the shape of a reduction of the tax payable on all "earned" Incomes which do not exceed £2,000 per annum.

Income Tax is a "one year tax," but has practically become a permanent tax owing to the fact that it is reimposed by Parliament annually in the Finance Act of each year, which incorporates the provisions of the previous Acts. In the first instance it was imposed as a temporary war tax, and for some time was so regarded, but its vitality has proved to be so great that, as has been well said, it has long ago come to be regarded as a "hardy annual."

The student may, perhaps, wonder why the study of this portion of our fiscal system should merit attention in a treatise upon Book-keeping. A little practical commercial experience, however, will soon convince him that the tax has become so intimately connected with accounting matters, and the preparation of correct returns of Income has become so complicated a task, that every competent book-keeper now-a-days is expected to possess useful knowledge of the subject. In addition to this there is the fact that the subject is now included in the syllabus of almost every examining body which grants certificates in book-keeping subjects.

Anything approaching a comprehensive knowledge of the subject is impossible of attainment without years of that practical experience which is only to be gained by frequent attendances before the Income Tax Surveyors and Commissioners. The regulations governing the subject are scattered, in the usual untidy fashion characteristic of British legislation, over a number of statutes. The legal precedents arising out of contested cases are legion in number and are widely scattered in their record. In addition to this lack of codification there exists great diversity of practice as between different surveyors and local commissioners.

So much has been said with a view to demonstrate to the student the extreme unwisdom of dogmatism with reference to points of Income Tax practice; the author ventures to offer this warning, because his experience is that the average examinee frequently dogmatizes upon

questions of Income Tax practice with an emphasis of language which an accountant of mature experience would hesitate to employ. This is a matter to which further and more detailed reference will be made later on.

Income Tax is ranged in our fiscal system under the division of "Inland Revenue" in company with the tax on inhabited houses and the remnants of the old land tax. All these taxes are under the management and collection of the Board of Inland Revenue.

It is enacted by the various Income Tax Acts that certain forms of income and revenue, from whatever source received, whether possessed by corporate bodies or by private persons, shall be taxed. The tax is calculated at a certain number of pence on each pound sterling of income, and the controlling principle in regard to the collection of the tax is that all Income shall, as far as possible, be taxed "*at its source.*" If the student will clearly apprehend this cardinal practice of the taxation of income at its source as far as possible, many of the difficulties he encounters will vanish. By the term "taxation of Income at its source" is meant the compelling of the original person, paying or affording Income to another person, to deduct and retain for the subsequent benefit of the Government the Income Tax which is payable on the Income so disbursed. For example, Limited Companies are taxed upon their profits *as a whole,* before they are distributed amongst the shareholders. The tenant of a house is taxed upon the rent he pays *before* it reaches his landlord. In each case, as will be explained later, the person so deducting and handing over taxes to the Government has the right of subsequent recoupment.

It will be obvious, however, that many classes of Income, *e.g.* the profits made by a sole trader, are not capable of being thus taxed at their source, for they arise out of a multitude of business transactions, the profit upon which is only known to the trader himself. On the other hand, for example, the deduction of Income Tax by the Bank of England when paying interest to the holders of Government Stock is a simple and feasible case of taxing Income at its source, and one which is common in the experience of all stockholders.

As was previously indicated, Income liable to tax is divided into five branches according to its nature, and the source from which it arises. These five classes are defined in **Schedules (A), (B), (C), (D)** and **(E)** appended

to the Income Tax Act of 1803, and the various classes of Income set out in these Schedules are frequently referred to by the name of the Schedules themselves. These Schedules are designed, as far as possible, to embrace every source of taxable Income.

The five classes of Income are as follows: **Schedule (A)**, Income arising out of the ownership of House Property, Land, Buildings and similar property. The annual rent or value is the measure of the charge, and the tax is payable yearly upon such annual value of the property, subject to a deduction of one-sixth (by way of compensation for repairs) in the case of House Property and Buildings, and of one-eighth in the case of Farm-houses and Farm properties. The occupiers of all premises taxable under this Schedule are required to make a return once every five years, and such returns are compared, for assessment purposes, with the Poor Rate valuations made by the local rating authority. Fresh assessments are then made, if necessary, based upon the estimated rental value of the property to a yearly tenant.

The tax under this Schedule is collected direct from the occupier of the premises, and in cases where the occupier is not himself the landlord but a tenant, he is empowered by law to deduct from his next payment of rent to his landlord the amount of the tax he has thus paid to the Government. In cases where the annual rent of the premises is under £10 the tax is collected direct from the landlord.

If the owner of the premises be exempt from Income Tax, owing to the smallness of his Income, the same course must still be pursued, and the tax must be deducted by the tenant in the usual way and paid over to the Government—the remedy of the owner being a right of claim against the authorities for the recoupment of the deduction so made. Such claims, if made in proper form and duly proved, will, as a matter of course, succeed.

The tax payable under Schedule (A) is commonly known as the **Property Tax**; it is in reality, however, a division of the Income Tax, and comes within the rules set forth later on, whereby persons possessing Incomes below £700 per annum are entitled to abatement or exemption from the tax in one degree or another, and to a return to them by the Government of any tax that

may have been paid by them, or deducted from Income received by them, in excess of such amount as they are liable to pay upon their limited incomes.

If, as frequently occurs, a person owns the premises used by him solely for the purpose of business, he is compelled to pay, under Schedule (A), the ordinary tax due on the annual value (or rather, allowing for repairs, upon five-sixths or seven-eighths of it). In computing the amount of his trading profits for the year, for Income Tax purposes under Schedule (D) (see p. 301), he is permitted, however, by way of compensation, to include, as a deduction from his trading profits, the annual value of his premises according to the amount upon which duty has been so paid under Schedule (A). This privilege is an important one, and the deduction which it permits is frequently substantial. If the premises upon which the tax under Schedule (A) has been paid consist of a dwelling house occupied by the owner partly for business purposes and partly for domestic purposes, a deduction of such part of the Schedule (A) "Annual value" *not exceeding two-thirds* thereof, as may be allowed by the Commissioners, is permissible when preparing an account of business profits for assessment under Schedule (D). This arbitrary apportionment is undoubtedly occasionally unjust; and, in an exceptional case, where there were "extenuating circumstances," the author succeeded in obtaining the full Schedule (A) assessment from the Special Commissioners. The same rule of apportionment applies to all the other expenses which occur in common to the house or the business, *e.g.* rates, coal, gas, etc. All such charges must be reasonably apportioned.

Property of some classes is entitled to certain exemption under this Schedule, viz. Public Buildings, the offices of Colleges and Halls in any University, Hospitals, Public Schools, Almshouses, and Literary and Scientific Institutions (*Needham* v. *Bowers; Blake* v. *Mayor of London; Sulley* v. *Royal College of Surgeons*, etc.).

Schedule (B) relates to the profits arising from the occupation of agricultural land.

This class of Income is that which is assumed to be derived by farmers by reason of their occupation of agricultural land. A fixed "annual value" is estimated by the assessors for each such piece of land in the same manner that a fixed annual value is adopted in the case

of the buildings, etc., as assessed under Schedule (A), and upon *one-third* of this annual value Income Tax is charged.

The farmer, however, has the option, under the *Customs and Inland Revenue Act*, 1887, of claiming to have the profits arising out of the occupation of his holding assessed as if he were an ordinary trader, *i.e.* under Schedule (D), which, as will be explained later, deals with the profits arising from businesses and vocations. If he claims to be so assessed, he must make a return under Schedule (D), and is then treated just like any other trader. The rough-and-ready way of arriving at the profits made by farmers was due, in the first instance, to the fact that very few farmers were able to keep accounts. The improvement made since in this direction is now recognized by the more recently granted option of assessment under Schedule (D), if desired; and, even when assessed under Schedule (B), remission of an overcharge can be obtained if it can be proved to have occurred by the production of satisfactory accounts. On the other hand, should the Schedule (B) assessment prove to be less than the profits made, the Crown has no power to surcharge the taxpayer.

Schedule (C) relates to Interest and Dividends payable in the United Kingdom out of "Public Funds," whether Imperial, Colonial or Foreign.

This Schedule covers the interest paid on Consols and other Government Stocks, Public Annuities, etc.; the tax upon this type of Income is deducted from the amount of interest, etc., due to the stockholder, and is paid over to the Inland Revenue authorities in one lump sum by the bank or other agent entrusted with the payment of the dividends.

Schedule (D) relates to the Income derived from professions, trades, and other occupations, and any Income not included in the other branches of the tax. It therefore covers the profits of any trade, profession, employment, or vocation, interest on money received without tax having already been deducted, profits from colonial and foreign securities received without tax having been deducted, profits from letting furnished houses, and any other profits not specifically enumerated above or falling under the classifications set out in Schedules (A), (B), (C) and (E). The profits derived from any property or employment, whether originating in this country or

abroad, are taxable under this Schedule if the ratepayer is resident in the United Kingdom (*Colquhoun* v. *Brooks*).

The Schedule is divided into six "Cases," viz. *Case I*, Profits from Trade, Manufactures and Commerce; *Case II*, Professional Incomes and Occupations not within any other Schedule of the Act; *Case III*, Profits of an uncertain annual value not charged under Schedule (A); *Cases IV* and *V*, Income from Securities and Possessions abroad; and *Case VI*, any Profits and Gains not within any other charge in the Acts. Profits under *Cases I, II* and *V* are charged upon an average of three years, and, on the other Cases, upon the actual Income received in one year.

Schedule (D) is the Schedule under which trading profits are assessed for taxation, and it is therefore obviously the Schedule with which the book-keeper is most intimately concerned. The figure of annual profits, upon which tax under Schedule (D) is payable, is not the figure which would be shown by the ordinary Profit and Loss Account of a trader as prepared upon prudent and business-like lines, but is a "statutory" figure of Income computed according to the rules laid down by the Income Tax Acts, and in accordance with the accumulated precedents, and, further, it is an *estimate* made in advance, arrived at according to these rules and regulations, and represents what the trader is legally deemed to *expect* to receive in the way of Profits or Income during an ensuing Governmental year.

The various rules, so far as they can be definitely stated, governing the computation of the statutory figure of Income referred to above are summarized later on in this chapter.

The assessment under this Schedule is in the hands of the "Additional Commissioners," who are chosen by the General Commissioners.

The basis upon which the tax is assessed is a formal return which is required from the taxpayer. At certain stated times the official printed forms for this purpose are sent to all taxpayers, who are required to return them within a specified time properly filled in. If necessary, the taxpayer can be compelled to verify the correctness of his return by the production of his accounts. If the taxpayer should default in making a return, the Commissioners may assess him upon their own estimate.

Under the "Finance Act, 1907" (Section 21), every

employer, when required to do so by notice from an assessor, is compelled to prepare and deliver to the assessor a return of the names and places of residence of any persons employed by him, and of the payments made to those persons in respect of their employment, unless such total payments do not exceed the limit fixed for total exemption from Income Tax. Forms of Returns for this purpose are now enclosed with the ordinary return forms sent annually to the taxpayer. In the case of companies or corporate bodies the Secretary is considered to be the employer for the purposes of this section.

Schedule (E) relates to salaries, fees, wages, profits of office, and employments of a public nature, including the salaries of Government officials, and the directors, managers, and other functionaries of public companies. The clerical staffs of public companies might, in many cases, be properly assessed under this Schedule, but, in practice, they are more frequently assessed under Schedule (D). The benefit of this course is that, whereas under Schedule (D) the taxpayer's assessment is based upon the average of his earnings for the last three years, under Schedule (E) the assessment is based upon the salary for the current year only; the former amount will, in many cases, be less than the latter.

More detailed reference must now be made to **Schedule (D)**, which, from the accountant's point of view at any rate, is by far the most important of all the Schedules enumerated above.

As has already been stated, this Schedule relates to the income derived from "professions, trades, and other occupations." It is a matter of supreme importance that the student should realize that Income Tax is not a tax upon *net profits*, as arrived at by ordinary commercial methods, but is a tax upon *income*, as that term is interpreted by the Income Tax Acts and the accumulated regulations appended thereto. The two terms are by no means synonymous, and much heart-burning would be saved if the taxpayer would grasp this essential fact.* To take a simple example: Robert Jones has been in

* The Earl of Halsbury said, "It appears to me that there is a mixture, not to say a confusion, of thought in using the word 'profits' in a sense which is not consistent with the mode in which it is used in the statutes relating to Income Tax" (*Pontypridd Main Sewerage, Braid* v. *Bensted*).

business for one year as a boot manufacturer, and has made a net profit of £1,000. He has, however, lost £500 of this sum owing to the collapse of a mining company in which he purchased shares. His "income" for the year, for Income Tax purposes, is assessed by the authorities at £1,000, the loss of £500 being regarded as a "loss of capital," which is not chargeable against his profits.

Enough has been said in the preceding pages to indicate to the student that no attempt can be made here to deal exhaustively, and in detail, with all the many incidences of practice which govern the administration of this Schedule. All that can be attempted is to offer, for the consideration of the student, a few notes which will enable him to prepare a simple return or to answer successfully the average examination question likely to be encountered upon the subject.

The main points in this Schedule which need consideration are as follows—

Method of Preparation of Schedule (D) Assessment

It has been briefly indicated above, that, early in each Governmental year (the Government year runs from the 6th day of April in one calendar year until the 5th day of April in the succeeding calendar year) certain officials, known as "Assessors," send, to all persons of whom they have cognizance, official forms to be filled in by the taxpayer and returned to them. An oath or declaration of secrecy with reference to the information contained in these returns is required from all Commissioners, Inspectors, Surveyors and others (Income Tax Act, 1842, sec. 38). These forms, when they relate to Schedule (D) assessments, are accompanied by a mass of not very lucid explanations which are very frequently misunderstood, with the result that overpayment of tax, through ignorance, is not an uncommon occurrence; on the other hand, a certain amount of understatement of Income, accidental or otherwise, is also, it is to be feared, not by any means an unknown experience.

The direction of the tax, under this Schedule, is subject to the management of the "Commissioners of Inland Revenue," who are, *ex officio*, also "Special Commissioners" for the tax. The details of the whole system of administration are in the hands of officials known as "Inspectors of Taxes" and "Surveyors of Taxes," the former being promoted from amongst the experienced

surveyors. The duties of the Inspectors are mainly those of supervision, and it is with the Surveyor that the taxpayer comes most frequently in contact.

The Rule of "Averages"

Where Income is derived from the exercise of any profession or business, the amount of such Income to be returned by the taxpayer for assessment purposes, in any given year, is neither the actual Income of that year, nor the Income expected to be made during that year, but is a "statutory" Income (*i.e.* an arbitrary figure calculated according to the prescribed rules), the amount of which is computed from the actual ascertained results of previous years, subject to adjustment by means of certain "allowances" or "disallowances" which may be made according to the statutes and regulations.

The Income which must be entered in the taxpayer's return for assessment under Schedule (D) is that Income which does not fall under any other Schedule, and is confined to such Income as has not already been taxed by deduction at its source. This rule always applies, whatever be the amount of the taxpayer's Income; if, however, the latter desires to claim that, owing to the fact that his total Income from all sources and under all Schedules, taxed or untaxed, is below certain statutory limits, and that he is, therefore, entitled to be regarded as "exempt" from assessment under Schedule (D), or to pay less than he would have had to pay if his Income had not been below certain limits, or that he is entitled to recover from the Inland Revenue authorities the tax on taxed Income coming under other Schedules, he is compelled to state, on a further page of the ordinary form, the amount of his total Income under all Schedules, taxed or untaxed, in order that it may be clearly seen that the claim made that his Income is below the limits specified in the Acts is justified in fact.

The amount of income taxable under this Schedule is computed upon an average of the three years preceding the actual year of assessment, and these three years may end either on April 5 in the calendar year of assessment, or on the date prior thereto up to which the taxpayer's profits have usually been ascertained. Thus, in sending in his return for the Government year April 6, 1909, to April 5, 1910, the trader would use his Profit and Loss Accounts for the three years ended

April 5, 1909, or if, as usually is the case, he makes his accounts up to the end of December or to some other month in each year, *e.g.* December 31, he can employ his ordinary Profit and Loss Accounts for the last three completed years, *e.g.* the Profit and Loss Accounts for the years ended December 31, 1906, 1907 and 1908 respectively.

The student will gather that, under these provisions, very few taxpayers pay upon the basis of the actual Income of the year. This creates an apparent hardship in those years when disaster is encountered, and when, consequently, all finances need to be rigidly conserved. For, no matter how large a loss may have occurred in the current year, the tax must be paid upon the *average* of the past three years. It is true that, in due course, the bad year will come into future averages, but this concession may prove but scanty consolation when, in a year of strained finances, a heavy sum has to be paid out in cash by way of tax on the average of past results. Prior to the year April 5, 1907, the taxpayer had the advantage, under the 133rd Section of the Revenue Act, 1865, of obtaining alleviation in circumstances of this nature, owing to the fact that he was allowed to substitute the trading result of the actual year of assessment in lieu of that of the first of the three years, the average of which formed the ordinary basis of assessment. By this means a new average was arrived at, and, in the majority of cases, an acceptable alleviation was secured. No such relief is now, however, obtainable, as the section referred to was repealed by the Finance Act of 1907.

In the case of *new* businesses, however, Section 24 of the Finance Act, 1907, provides that the tax ultimately payable upon the profits of the first three years shall be based upon the actual profits of those years only.

If the business is a new one, and has been established for a less period than three years, the average yearly profits to the date of assessment must be taken, or if the business was commenced within the actual year of assessment, an estimate of the profits expected to be derived from the business must be furnished. Assessments made upon these two classes of estimate, *i.e.* where business commenced within the year of assessment or within three years, can be rectified subsequently, and any tax overpaid can be recovered when the actual results of the current year are to hand (Finance Act, 1907, section 24 (3)).

Iron and coal mines compute their profits upon a basis of the five preceding years, while certain special classes of industries, *e.g.* Railways, Ferries, Markets, Fishings, Alum Works, Salt Works, Quarries, Gas Works and Water Works base their returns upon the actual profit of the preceding year.

In cases, therefore, where a business has been established for less than three years, the profits of the first year (if one only) would form the basis of the assessment. In the second year, the average profits of such period (less than three years) as the business had been in existence prior to the year of assessment would form the basis of calculation. For the third year the full average would, of course, be available in compliance with the ordinary regulations of the tax.

In the author's experience it is the practice in some districts to take the actual profits of each year as the basis of assessment until such time as the average of the three completed years is available.

Persons carrying on two or more businesses may set off the loss incurred in one against the profit made in another (*Reid's Brewery Co.* v. *Male*).

In cases where the ownership of a business has changed hands the profits of such business must be assessed upon the three years' average, just as though no change of ownership had taken place. If, however, in such cases, the successors to the late proprietors can show that the profits will fall short of the old average, owing to some specific cause arising out of such change of ownership, permission will usually be granted to treat the business as if it were a new one (*Ryhope Coal* v. *Foyer*, *Inland Revenue* v. *Fairie*).

Many items of "loss" or expenditure which a prudent trader ordinarily includes in his Profit and Loss Account are disallowed as deductions from trading profits by the Income Tax authorities, and other items of "loss" are only permitted to be included for less amounts than the figure at which the trader has deemed it prudent to charge them in his accounts. On the other hand, the Income Tax Acts permit certain deductions from profits to be made which are not ordinary business expenses, or even expenses at all, and consequently do not appear anywhere in the trader's books, or in his Profit and Loss Accounts.

Consequently, in preparing a figure of income for return

to the Income Tax authorities, the trader must *add* to his profits (as appearing in his Profit and Loss Accounts) certain types of actual "loss" or expense which are legally disallowed as charges against such profits, and must *deduct* from the total thus obtained certain "allowances," which are permissible under the statutes as deductions. Upon the three years' average of the figures thus obtained the assessment under Schedule (D) is arrived at. In cases where the trader's Profit and Loss Accounts show net losses the "disallowed charges against profits" must be extracted, and any permissible deductions brought into account in the ordinary way; it is only when this process has been gone through that the taxpayer, although his accounts may show an actual loss, can rest assured that he is free from the payment of tax under Schedule (D). An actual trading loss may, and frequently does, owing to the surcharge of various "disallowances," etc., work out at a "statutory" profit, upon which tax has to be paid by the unfortunate trader.

Deductions

The various items which the trader is allowed to deduct, together with those which he is prohibited from deducting, are stated below in the form in which they appear in the "Instructions" sent to taxpayers with the annual forms.

In computing the Profits upon which the average is to be taken—

DEDUCTIONS ARE ALLOWED—

1. For Repairs of Premises occupied for the purpose of the Trade, etc., and for the Supply or Repair of Implements, Utensils, or Articles employed, not exceeding the sum usually expended for such purposes according to the average of the three years preceding.
2. For Debts proved to be bad; also for Doubtful Debts according to their Estimated Value.
3. For the Rent of Premises used *solely* for the purposes of business, and not as a place of residence.
4. For a proportion, not exceeding two-thirds, of the Rent of any dwelling house *partly* used for the purposes of business.
5. For the Annual Value of any premises occupied by the Owner *solely* for the purposes of business, and not as a place of residence, according to the amount on which duty has been paid under Schedule (A) (see page 293).

For a proportion, not exceeding two-thirds, of the Annual Value (according to the amount on which Duty has been paid under Schedule (A)), of any dwelling house occupied by the Owner and *partly* used for the purposes of business (see page 293).

7. For any other disbursements or expenses wholly and exclusively laid out for the purposes of the Trade, etc.

NO DEDUCTIONS ARE ALLOWED—

1. For any Interest on Capital, for any Annual Interest, Annuity, or other Annual Payment, payable out of the Profits or Gains, or for any Royalty, or other sum paid in respect of the user of a Patent. (The duty on such Interest, Patent Royalty, or other Annual Payment should be deducted from the person to whom the payment is made.)
2. For any Sums paid as Salaries to Partners, or for Drawings by Partners.
3. For any Sums invested or employed as Capital in the Trade or Business, or on account of Capital withdrawn therefrom.
4. For any Sums expended on Improvement of Premises or written off for Depreciation of Land, Buildings, or Leases.
5. For any Loss not connected with, or arising out of the Trade, Business, etc. (*e. g.* Charitable Donations, or losses on Stock Exchange operations).
6. For any Expenses of Maintenance of the Persons assessable, their Families, or Private Establishments.
7. For any Loss recoverable under an Insurance or Contract of Indemnity.
8. For any Sum paid as Income Tax on Profits or Gains, or on the Annual Value of Trade Premises (but Schedule (A) *assessment* may be deducted as above stated).
9. For any Premium for Life Insurance, or for Wear and Tear of Machinery or Plant; but Allowances may be claimed in respect of these items (see below).

Insurance Premiums

A taxpayer effecting an insurance, or taking a deferred annuity, on his own life, or that of his wife, with any office "lawfully carrying on business in the United Kingdom" may, in addition to any claims for "exemption" or "abatement" (see pages 303, 304) which he may be entitled to prefer, claim an allowance, by way of deduction from his gross Income, of all the premiums paid each year on these policies of assurance, up to and *not exceeding one-sixth* of his total Income from all sources. This concession, however, must not be used in order to claim a greater "abatement" than is allowable on the taxpayer's total Income according to the table given below. The production of the official receipts for the life insurance premiums so paid is usually called for by the Surveyor of Taxes by whom the taxpayer's return is examined. Accident insurance premiums are, as a rule, only allowed as deductions when the policy covers the risk of death. Claims on account of any life assurance premiums paid may be preferred for three years back on obtaining the

special form issued for the purpose by the Somerset House Authorities.

The particulars set out above with reference to "allowances" and "disallowances," as sent officially to the taxpayer, often prove actually misleading to the student, as, in many cases, they are bald and even ambiguous in phraseology, and, in other cases, they are not on all fours with the actual administration of the regulations as interpreted by the Surveyors of Taxes. Detailed illustrations of some such discrepancies will be noted by the student when these matters are dealt with in more detail later on.

Exemption and Abatement

Under the regulations of the Finance Act, 1894, which are still in force with reference to abatements, if an individual's total annual Income from all sources is less than £160 * he is not liable to pay any Income Tax at all; he must, however, if so required, fill in the usual form in order to prove that his Income is less than £160. Omission to do this renders him liable to a penalty. Such person can recover from the Inland Revenue Authorities any tax which may have been already deducted at its source on any portion of his Income. The forms for recovering such deductions are, in the first instance, to be obtained from the local Surveyor of Taxes; and the tax previously deducted from interest and dividends, if reclaimed, must be verified by the production of the dividend counterparts or other vouchers duly certified by the secretary of the Company or other proper person.

Persons whose Incomes are solely derived from a common fund, such for instance as a Trust Fund in which they inherit a share only, can also obtain rebate, although the total income derived from such fund may be far beyond the limits allowed for exemption. For example, if the members of a Trust, the Income of which amounted to £1,700 per annum, are four in number, and therefore derive an Income of £425 each from the fund, they are entitled to rebate on £150, *i.e.* to a refund of £7 10*s*. each, supposing the current tax to be 1*s*. in the £1. The proper procedure in these cases is to obtain and carefully fill in the form entitled "Income Tax Abatement

* When the tax was first imposed in 1799 all Incomes above £60 per annum were liable to tax.

Claim" (blue). A form for each claimant must be filled in and signed, and these documents must be accompanied by an Income Account, showing the revenue of the Trust Fund for the year, duly vouched by the attachment of the counterparts of dividend warrants, Bankers' certificates for repayments, etc., in order to prove that the Trust Income has already been taxed at its source. In the first year in which rebate is claimed these papers must be sent to the local Surveyor concerned. In future years they should be addressed to the Secretary, Claims Branch, Inland Revenue, Somerset House.

Persons whose Income from all sources exceed £160 but do not exceed £700 may claim "abatements," *i. e.* deductions from their Income, as under :—

Exceeding	£160	but not	exceeding	£400	an abatement of	£160.
,,	£400	,,	,,	£500	,,	£150.
,,	£500	,,	,,	£600	,,	£120.
,,	£600	,,	,,	£700	,,	£70.

These abatements apply to *persons* only, and Limited Companies are not entitled to relief (*Mylam* v. *Market Harborough Advertiser Company, Ltd.*), neither, it would appear, are unincorporated companies competent to obtain relief (*Curtis* v. *Old Monkland Conservative Association*).

Any person making a false or untruthful declaration when making a claim for rebate is liable to a penalty of £50.

The Income of charities, so far as it is applied to charitable purposes, is free from Income Tax. If, however, such charities carry on trade in any form, the profits of such trade, notwithstanding the fact that such profits are applied to charitable purposes, are liable to tax in the ordinary way.

Abatements are also allowed in cases where the taxpayer has ceased to follow his trade or occupation or dies before the end of the year of assessment; in these cases the assessment will be amended "as the case may require" (Act of 1842, sec. 134).

Relief in respect of Earned Income

In addition to the foregoing abatements, and life assurance premium allowances, persons possessing Incomes below £2,000 may, if any part of it is *earned*, claim to pay tax upon such "earned" portion at a lower rate than that which is payable on the "unearned" portion

(Finance Act, 1907). This payment of tax at a lower rate upon "earned" Income is referred to as "differentiation" between it and unearned income. Claims for "differentiation" must be made before September 30 in the year of assessment, otherwise no relief will be granted. The rates of Income Tax proposed under the Finance Bill, 1909,* are 1*s.* 2*d.* in the pound for *unearned* Income and 9*d.* in the pound for *earned* Income. Allowances for life insurance premiums and abatements are deducted from earned Income rather than from unearned Income in a taxpayer's return, in such cases where the return includes both classes of Income.

All dividends from Public Companies are regarded as *unearned* Income, and are therefore taxed at the higher rate. There is no doubt that this ruling creates hardship in the case of "Private Companies," where the shareholders are practically active partners in a private venture, and *earn* and draw all their profits in the shape of dividends. There can be no doubt that this hardship has caused many Private Companies to distribute their profits largely in the shape of directors' "remuneration" and "commission" in order to avoid the higher rate of tax charged upon dividends as such.

Definition of "Earned" Incomes

The Finance Act, 1907, sec. 19 (7), defines earned income as under—

(*a*) Any income arising in respect of any remuneration from any office or employment of profit held by the individual or in respect of any pension, superannuation, or other allowance, deferred pay or compensation for loss of office given in respect of the past services of the individual or of the husband or parent of the individual in any office or employment of profit, whether the individual, or husband or parent of the individual shall have contributed to such pension, superannuation allowance or deferred pay or not.

(*b*) Any Income from any property, which is attached to or forms part of the emoluments of any office or employment of profit held by the individual.

(*c*) Any Income which is charged under Schedule (B) or (D) in the Income Tax Act, 1853, or the rules prescribed by Schedule (D) in the Income Tax Act, 1842, and is immediately derived by the individual from the carrying on

* This Bill had not become law at the date of going to press.

or exercise by him of his profession, trade or vocation, either as an individual or in the case of a partnership as a partner personally acting therein.

Relief in Respect of Children

Under the Finance Bill, 1909, persons whose total annual income is below £500 are entitled to a deduction of £10 from their assessment for each legitimate child under 16 years of age.

Super-tax on Incomes over £5,000

Under the Finance Bill, 1909, persons possessing a total annual Income of over £5,000 must pay a super-tax of 6*d.* in the pound upon the excess Income over £3,000 per annum. This is apart from their ordinary assessment and in addition thereto.

Income of Married Women

The Income of a married woman living with her husband is, by the Income Tax Acts, deemed to be the husband's Income, and is taxed in his name, and must be returned by him. Abatement can thus only be claimed upon the *joint* Income. The only exception to this rule is in cases where a wife *earns* an Income independently of her husband by the exercise of her own personal labour, and where the joint Income of the husband and wife does not exceed £500. If the Commissioners are satisfied that the total joint Income, after including the Income earned by the wife, does not exceed £500, the profit so earned by the wife may be treated as a separate Income for the purpose of claiming exemption or abatement, as well as, and in addition to, any abatement which the husband may be entitled to claim on his own return (Finance Act, 1897, sec. 5).

In order to succeed in obtaining relief under this section, it would appear to be essential that there should be no connection between the business of the husband and that of the wife; they must be apart and distinct. For example, where a school-master and school-mistress are paid a joint salary, the husband is assessed on the total joint Income (*Bowers* v. *Harding*).

Mode of Assessment

Persons assessable under Schedule (D) receive during the early part of the Government year certain official forms which it is obligatory upon them to fill in and return

to the assessor for the district. This official does not himself make the assessments; his duty is confined to the collection of the returns, and the prescribed listing of them, and he acts, to a certain extent, under the supervision of another official designated a "Surveyor of Taxes." The persons by whom the assessments are made are styled "Commissioners," and two kinds of "Boards of Income Tax Commissioners" exist; firstly, the "District Commissioners" (bodies of influential gentlemen, not Income Tax officials, appointed for each district without remuneration); and secondly, the "Special Commissioners" at Somerset House (a special central Board of paid Government officials).

A person making a return for Income Tax purposes may claim to be assessed in either of the two following special ways, viz.—

(1) By the Special Commissioners at Somerset House.
(2) By the District Commissioners, not in his own name, but under a number or letter.

This latter method can be employed by any trader who may wish to keep his name and private affairs from the knowledge of the District Commissioners who are assessing him, some of whom may conceivably be his friends or business rivals; while the adoption of the former and alternative method removes the whole matter from local cognizance.

Failing a special request by the taxpayer, in his return, to be assessed in one of the above-mentioned special ways, he will be assessed in his own name by the District Commissioners of the locality in which he lives or trades in the ordinary way.

Persons who fail to make a return when required, or who make an untrue return, are liable to a penalty of £20, and a treble duty by means of proceedings before the Commissioners, or of £50 if the matter is taken to the Law Courts.

Appeals

In cases where the taxpayer deems himself to have been aggrieved by any unfair or incorrect assessment, he has the right to appeal either (*a*) to the District Commissioners, or (*b*) to the Special Commissioners at Somerset House.

As a matter of practical experience very few cases, comparatively speaking, reach either of the above Boards of

Commissioners. The usual proceeding is for the taxpayer to settle the case amicably, with what professional assistance he may need, with the Surveyer of Taxes for his District.

In those cases, however, where a satisfactory settlement is not attained by these means, the taxpayer can appeal to either of the Boards mentioned above. It is conceivable that he may experience considerable difficulty in deciding which is the better tribunal to appear before on appeal. As has been already indicated, it is possible that the District Commissioners may be friends or business rivals of the appellant, and, in such case, he will doubtless prefer to appeal direct to the Special Commissioners at Somerset House. On the other hand, the District Commissioners, as practical business men, are often more generous and less bound by precedent when dealing with such matters as "wear and tear," "bad debts," etc., than the Special Commissioners, who sit in a strictly judicial capacity. The author's personal experience is, however, that, when the case is a good one, it is preferable to appeal to the Special Commissioners.

Appeals are generally conducted on behalf of the taxpayer by professional accountants, who must be members of a recognized society. Under Section 16 of the Finance Act, 1898, a barrister or solicitor may now also appear on behalf of the appellant should the latter so desire.

The taxpayer must give ten days' notice *in writing* to the Surveyor of his intention to appeal against his assessment.

If, after appeal, the taxpayer is of opinion that the decision of the Commissioners is erroneous *in point of law* he may, within twenty-one days, require them to state a case in order that a decision may be obtained from the High Court, whence, in the usual way, the matter may be taken to the Court of Appeal, and to the House of Lords should it be so desired (Taxes Management Act, 1880, secs. 10 and 59).

The decisions of the Commissioners *upon questions of fact* are final and conclusive, and no appeal can be made therefrom to any higher tribunal. For example, should the Commissioners decide that an allowance for wear and tear of 5 per cent. upon the value of the Plant and Machinery employed by the taxpayer is a fair one, under the circumstances, no appeal against this allowance, on the grounds of its inadequacy, will lie.

The taxpayer, upon appeal, must produce accounts to substantiate his contentions, and can be required to verify them by oath, though he is seldom called upon to do so. The Commissioners have also the power to put questions in writing or *vivâ voce* to the appellant, and, should they deem it necessary, to summon witnesses to be examined on oath. It would appear, however, that the taxpayer cannot be compelled to produce his books (*R.* v. *Chew and Others*). The refusal to do so will, in most cases, however, tell adversely against the chances of successful appeal, and, in the author's opinion, the production of books, where called for, is always a wise proceeding.

In the course of preparing and settling accounts with the Surveyor of Taxes, or in conducting appeals before the Commissioners, there are certain "allowances" and "surcharges" which need some detailed consideration in this place. As has already been indicated, the official list of allowances and disallowances, as reproduced on page 301, needs some explanatory comment in order that the student may not be misled by the somewhat cryptic phraseology employed in the case of several of the items enumerated.

In the Income Tax appeal case—*Gresham Life Assurance Society* v. *Styles*—Lord Herschel said: "Profits are ascertained by setting against the Income earned the cost of earning it." Again, Lord Halsbury said: "The profit was that which was earned after paying all expenses necessary and incident to the earning of it" (*Ashton Gas Company* v. *Attorney-General*). In view of these apparently explicit statements, many of the decisions arrived at in Income Tax cases as to what taxable profits consist of are difficult of comprehension. The student of Income Tax matters must always remember that, in many cases, some of the charges and provisions which are considered, in commercial circles, to be not only prudent but essential prior to the ascertainment of true profits, are not recognized in the same aspect by the law or by the Income Tax authorities. Such charges are, therefore, disallowed, with the result that many taxpayers pay tax upon a sum far larger than the Income which they are entitled to consider as legitimately earned.

The most fruitful source of disagreement, as between the taxpayer and his surveyor, is probably that known officially as

Wear and Tear

There is probably no item in the whole of his assessment which causes the trader more heartburning and annoyance than the totally inadequate allowances made by the authorities under this heading. The large owner and user of machinery and plant is undoubtedly burdened with what amounts to an additional tax owing to the inadequacy of these allowances.

During the first thirty-six years of the history of Income Tax, no claims for wear and tear were recognized at all, and it was only after strenuous efforts that Parliament was induced to grant concessions upon the present meagre lines (Inland Revenue Act, 1878, sec. 12). Since this date many efforts have been made in Parliament to obtain more liberal treatment in this respect, and several memorials have been addressed to the Chancellor of the Exchequer. These efforts have, however, in no case been very encouraging, save perhaps that in May 1897, in reply to a memorial by the Associated Chambers of Commerce, the Chancellor of the Exchequer gave instructions that the Surveyors of Taxes were to use their discretion in making allowances for obsolete machinery. This instruction was a distinct concession, as allowances under this head had hitherto been unobtainable.

In Accounting parlance the wastage which takes place in the life of certain assets owing to use, is termed "Depreciation." The student often confuses this term with the designation "Wear and Tear," as employed in Income Tax matters, and, as a consequence, is led into much perplexity of mind. It is essential that it should be clearly realized that these two terms are by no means synonymous. The term "Depreciation" includes Wear and Tear, of course, but it covers a much wider field, embracing, as it does, the wastage caused by any fall in market values which may not be, and frequently are not, connected in any way with Wear and Tear. For example, a machine may depreciate owing to the invention of a new type which has rendered it obsolete and of comparatively little value. The term "Wear and Tear," as understood by the Income Tax authorities, does not recognize any shrinkages in value of this nature, but regards them as losses of capital.

The subject of the actual rates of depreciation allowed by the Income Tax authorities is naturally one of great

interest both to the taxpayer and to the student. It presents, however, a matter of great difficulty from the point of view of the author of a text-book, so widely divergent is the practice ruling in different districts, and even between individual Surveyors. The author has noticed, however, that the average examinee is not troubled by these divergencies of practice, but is usually ready, often with considerable dogmatism, to affirm that 5 per cent. is the utmost rate which is ever allowed under this heading. It would appear, moreover, that he is encouraged in this belief by some of the text-books in current use.

As a matter of fact, it is perhaps true that 5 per cent. is the more usual rate for an allowance for Wear and Tear, but, in the author's opinion, the examinee is unwise to be too emphatic upon the point, as it is a matter of experience that other rates are also frequently allowed. During the current year (1909), for example, the author has been allowed, on behalf of clients, 5 per cent., 7½ per cent., 8 per cent. and 10 per cent. under varying circumstances. The highest rate mentioned (10 per cent.) was granted on two occasions by the Special Commissioners.

When answering an examination exercise, the terms of which require the compilation of an Income Tax return, the examinee will be wise, after arriving at the figure of the average profits, to deduct, as a claim, depreciation at the rate of 5 per cent., explaining thereafter that, under certain circumstances, an appeal for a higher rate might meet with success.

The student will be aware that the usual method of dealing with the Plant Account in the preparation of a Balance Sheet is as follows—

Machinery and Plant Account—

	£	s.	d.			
As per last Balance Sheet .	1,000	0	0			
Additions during the year .	500	0	0			
	1,500	0	0			
Less—						
Depreciation at 10 per cent. . . .	150	0	0			
				£1,350	0	0

The Income Tax practice is, however, to allow, whatever rate of depreciation is conceded, upon the *initial balance* only (*i.e.* £1,000 in the above illustration), no depreciation being allowed on the additions made during the year.

The depreciation rates allowable in the case of ships appear to have caused great dissatisfaction in shipping circles, judging by the number of contested cases on record. The general rates allowed in these cases are usually—

Tank steamers .	7½ per cent.	on the diminishing value from year to year.
Passenger steamers .	6 ,,	
Cargo steamers .	5 ,,	
Sailing vessels .	4 ,,	

Efforts to obtain higher rates have been made by the Peninsular and Oriental Steam Navigation Company and other Companies without avail.

No depreciation allowances are made for any shrinkages which may have occurred in the value of Buildings or Land. Such wastage is regarded as loss of capital.

The following provisions, being an amelioration of the previous rules in regard to depreciation allowances, appear in the Finance Act of 1907.

1. No deduction for Wear and Tear shall be allowed in any year if the deduction, when added to the deductions allowed on that account to the person by whom the concern is carried on, will make the aggregate amount of the deductions exceed the actual cost to that person of the machinery or plant (including in that actual cost any expenditure in the nature of capital expenditure on the machinery or plant by way of renewal, improvement or reinstatement).

2. If in any year full effect cannot, by reason of insufficiency of assessable profits, be given to the deduction allowed to be made for that year's Wear and Tear of machinery and plant, the amount not deducted in that year can be carried forward to the next year, and added to that year's similar deduction, and so on in succeeding years.

This latter concession is an important one, and in cases where bad years are encountered frequently affords welcome relief to the taxpayer. As an illustration of the effect of the provision, the following example of an actual case may be given.

The profits of a certain undertaking were as follows—

	£	s.	d	£	s.	d.
Assessment as agreed, 1906 .				1,682	0	0
,, ,, 1907 .				1,720	0	0
Profits as per accounts for 1908 .	2,410	0	0			
Add—						
Various surcharges	750	0	0			
	3,160	0	0			
Deduct—						
Schedule (A) assessment . . .	2,650	0	0			
				510	0	0
				3)3,912	0	0
Average				1,304	0	0
Less—						
Claim for Wear and Tear (allowed on appeal) at 10 per cent. on £18,000				1,800	0	0
Balance of Wear and Tear allowance, not required, to be carried forward to next year . .				£496	0	0

Ordinary trade repairs are always allowed, provided they do not exceed the usual expenditure under this heading, based upon the average of the past three years.

The taxpayer can, if he so desires, surrender his claim for Wear and Tear, and charge his accounts, in substitution therefor, with any

Replacements

he may have effected during the year. Many Surveyors prefer this method, and indeed advise it, and, under some circumstances, there can be no doubt that the alternative is beneficial from the taxpayer's point of view, especially in those trades where, owing to the nature of the raw materials dealt with (acids, for example), the plant has to undergo extensive replacement at frequent intervals.

As an illustration—a business employing gas as motive

power substituted electric power at a cost of some £2,500. An expert valuation was obtained, from which it appeared that it would have cost £1,500 to have replaced the old gas plant with a new plant of the same type. No claim had been made for Wear and Tear, and, upon appeal, the author was allowed a sum of £1,200 as representing the cost of replacements, less any value there might be attached to the old plant as "scrap."

Losses of Capital

Losses of this nature are not permissible as a charge, even in part, against the profits assessable for Income Tax. It is quite impossible to define, within reasonable limits, the meaning of a "capital loss" from the Income Tax point of view. All that can be said is that, in a large number of cases, the replacement out of profits of the capital so lost would, in commercial circles, be considered a matter of necessity, prior to the division of such profits amongst the partners of a firm, or the shareholders of a Limited Company, as the case may be.

A few examples may perhaps afford the best indication of the line of demarcation adopted by the authorities in dividing losses as between "Capital losses" and such losses as are chargeable against taxable profits.

(*a*) A branch factory established by a Company proved unsuccessful, and the loss sustained on the Fixtures, Plant, etc., upon closing such branch was disallowed (as a "Capital loss") as a charge against the Company's profits (*Smith* v. *Westinghouse Brake Company*).

(*b*) A steamship Company underwrote a portion of the value of one of their own steamers, placing the balance of the risk elsewhere. Upon the wreck of the steamer, the risk underwritten by the Company itself was disallowed as a "Capital loss" (*Inland Revenue* v. *Western Steamship Company*).

(*c*) A Company upon removing to new works was disallowed the cost of removal of the Stock and Plant to the new premises (*Granite Supply Association* v. *Kitton*).

(*d*) A Company, owning nitrate grounds, sought to make provision for the wastage occurring owing to the exhaustion of the nitrate deposits, but the claim was disallowed as a "Capital loss" (*Alianza Company* v. *Bell*).

(*e*) A Company, having made an issue of Debentures, charged the expenses of such issue (such as brokerage, printing, advertising, etc.) against profits, but the charge

was disallowed (*Texas Land and Mortgage Company* v. *Holtham*).

Voluntary Subscriptions,

even when disbursed solely for trade purposes, are not always allowed (*Rhymney Iron Company* v. *Fowler*). Subscriptions, or "guarantees," towards a Trade Exhibition have, for instance, been disallowed. It is the practice of most Surveyors, however, to allow such subscriptions as are *boná fide* necessary for trade purposes. Charitable subscriptions, as such, are not allowed as deductions. Contributions to a hospital where the taxpayer's employees are treated are, however, generally allowed.

Preliminary Expenses

The "Preliminary Expenses" incurred upon the formation of a Limited Company are, as the student is aware, usually held in suspense, and are charged in instalments against the profits of several years. No charge of this nature is allowed for Income Tax purposes, the item being regarded as capital expenditure incurred in creating the Company. If, however, the amount charged contains any items such as the cost of the Company's books of account, or the seal of the Company, such items will, as a rule, be allowed.

Annuities

Annuities payable out of the profits of a business—to the widow of a deceased partner, for example—are not chargeable against the profits for Income Tax purposes. The tax may, however, be deducted prior to the payment of the annuity, and, in this way, the business would be recouped. This practice furnishes us with yet another example of the underlying principle that all tax is collected *at its source*, whenever possible.

Interest

Annual Interest is not allowed as a charge against profits no matter what the guise in which it may appear. Interest on partners' Capital, Interest on Loans and Mortgages, or indeed each and every form of interest is surcharged. As in the case of the annuities dealt with above, the right of recoupment of the tax exists in connection with all interest payments, and the practice of the collection of the tax *at its source* is again exemplified (*Revell* v. *Edinburgh Life Insurance Company; Blake* v. *Imperial Brazilian Railway Company*, etc.).

There would appear to be an exception to this rule in

the case of "Short Loans" advanced by Bankers where money is lent to customers for a specified time. As such interest is not "yearly interest," but accrues and is payable as and when the loan becomes repayable, it does not come within the section (*Goslings & Sharpe* v. *Blake*).

The Surveyors of Taxes also make an exception with regard to "Bankers' Interest," recognizing the almost universal practice of Bankers with regard to interest on overdrafts, etc., which is that such interest is charged *gross* in the customer's pass book, the taxpayer having, therefore, no opportunity of deducting the tax, is allowed to charge such interest against his trading profits for Income Tax purposes.

On the other hand, when interest is received from Bankers upon deposit accounts, such interest is usually credited *gross*, and must, therefore, be brought into account by the taxpayer. Colonial and Foreign Banks, with branches in this country, however, usually form an exception to this rule, and pay such interest *less tax*.

When loans are advanced on mortgage or other security for *fixed periods* by a Bank, the interest upon such loans is charged less tax in the usual way.

The underlying principle of taxing all Income at its source applies, perhaps, with more force to interest than to any other class of Income, as it is usually more easily traced. The student will note that *all interest of money* is taxable as such, and that it is therefore quite possible for a Company (or trader) to make a trading loss, and yet to be obliged to pay tax upon the return from any investments held (*Clerical, Medical and General Life Assurance Society* v. *Carter; Revell* v. *Edinburgh Life Insurance Company*).

In making payments of interest the taxpayer is always entitled (under Section 40 of the 1853 Act) to deduct Income Tax therefrom, and is therefore recouped in such cases (*Morse* v. *Salt*).

Bad Debts

Debts known to be "bad," and actually written off as such on the taxpayer's books, are allowed as a charge against taxable profits. The student will remember that, in addition to writing off actual bad debts, it is customary to provide a reserve for "Bad and Doubtful Debts" based upon a percentage of the total outstanding debts at the close of the trading period. It is not usual for such a

reserve to be allowed in accounts passed for Income Tax purposes.

The average examinee is wont to schedule this item as another charge which is never allowed. The author, during the current year, was successful on two occasions in obtaining such an allowance, once on appeal before the District Commissioners, and again from a Surveyor of Taxes. The circumstances in these cases may have been somewhat unusual, and the matter is only mentioned here as a further illustration of the unwisdom of dogmatizing upon questions of Income Tax practice, as so many examination candidates are in the habit of doing.

Bad debts incurred owing to the loss of moneys loaned to the customers of an undertaking in accordance with trade custom (in the case of Breweries, for example) are allowed as a deduction against trading profits. Such losses are not deemed to be losses of capital (*Reid's Brewery* v. *Male*).

Speculations

Profits or losses made in connection with speculations outside the business of the taxpayer may not be brought into account.

The rule appears to be that, if the taxpayer does not speculate "habitually," he escapes the payment of tax upon any profit he may make. It is difficult, however, to obtain any official definition of the word "habitually"—one Surveyor informing the author that "anything in excess of five or six speculations a year would be subject to tax."

On the other hand, persons who are professional speculators are liable to tax. For example, a bookmaker who sought to evade tax on the ground that his calling was not a "business," was held liable on the ground that he was at any rate engaged in a "vocation" (*Partridge & Hancox* v. *Mallandaine*).

Premiums on the Issue of New Shares

are held to be a "capital" profit, and are therefore not taxable.

Voluntary Gifts

are not liable to tax. If, for example, a father allows his son an Annual Income, such Income is not taxable.

Depreciation on Lease

The annual wastage in the value of a leasehold is held

to be a "Capital" loss. In cases, therefore, where a "premium" has been paid for a lease, the annual instalment of such premium, as charged in the ordinary course against the profits of the year, is disallowed. The taxpayer has, however, the right of claiming, as a deduction, his net assessment under Schedule (A) for such property, and, in some cases, this concession more than compensates for the surcharge of the instalment of the premium (*Watney* v. *Musgrave; Gilliatt & Watts* v. *Colquhoun*).

Income Tax

is not allowed as a charge against profits, and must be added to the trading profits when making a return under Schedule (D). The tax so paid is not an "expense" incurred in earning the Income, and is officially regarded as that proportion of the ascertained profits which is due to the Crown, and so, from the Inland Revenue point of view, it is an apportionment of profits, and not a charge against them.

Partners' Salaries

are not allowed as deductions. It will be obvious that, if allowances of this nature were made, much abuse of the concession would probably arise. From the Crown point of view, therefore, salaries paid to partners are regarded as an appropriation of profits.

After what has been said above, it will, perhaps, be almost unnecessary to state that no deductions are allowable for: **Sinking Funds for the Redemption of Debentures** (*Imperial Brazilian Railway*), **Commissions paid for placing Shares** (*Texas Land and Mortgage Company, Ltd.*), **Instalments written off the Life of Patents, Instalments written off the Cost of sinking Pit Shafts** (*Coltness Iron Company*), and **Amounts written off Goodwill.**

Losses by Embezzlement

were always formerly disallowed, but the practice has been modified, and if the defalcations arise in the ordinary conduct of the business concerned, such losses are now generally allowed as deductions.

Trade Charges

In preparing accounts for Income Tax purposes it is always inadvisable to include too many items of expenditure under this heading, as the average Surveyor of

Taxes always seems to suspect this designation as the hiding-place of questionable items. As far as possible a full analysis of expenditure should be set out.

Dividends

When deducting Income Tax from interest, dividends, etc., the rate (where there has been a change of tax during the period covered by such interest or dividend) is to be calculated as follows—

A. On Dividends and Interest from Public Funds, Foreign Loans, or Foreign and Colonial Companies, Official Salaries, and Pensions. Interest and Annuities paid by Municipal Corporations or Local Authorities to additions on Rates, *at the rate in force at the date of payment.*

B. Mortgage Interest or other Interest, Ground Rents, Interest or Annuities payable out of Profits, Dividends from Public Companies, *at the rates in force during the period in which they have been accruing.*

(Board of Inland Revenue Order, May 1893.)

Companies deducting tax when paying dividends usually issue a printed form certifying that such tax has been deducted, and stating the amount so deducted. This procedure is followed in order that the amounts paid may be deducted or reclaimed by means of recoupments of the tax paid on such interest or dividends. Holders of Inscribed Stocks need no such certificates.

When making claims for rebate the " counterparts " of the dividend and interest warrants must be produced for the inspection of the Surveyor of Taxes.

Partners

In cases where persons carry on business in partnership a return for Income Tax purposes must be made showing the profits of the firm liable to pay the tax. Failing any request for the adjustment of the assessment (see below), a claim for tax upon the full amount of the profits as shown in the return will be made upon the firm. The right of partners to be separately assessed has been withdrawn by section 30 of the Finance Act, 1907. There still remains, however, the right to be separately *treated;* for in cases where the Incomes of any of the partners, including their shares of the firm's assessable profits, are under £700 per annum, such partners may

claim that the members of the firm shall be relieved to the extent of such abatement as they are entitled to under the Acts, and they will thus be able to obtain the benefit of any exemption, abatement, or allowance to which they may, as individuals, be entitled. This request must be signified on a further section of the official form provided for the purpose.

For example, if the net assessable profits of a firm consisting of two partners amount to £630 for a given year, and profits are shared, as between partner A and partner B, in proportion of two-thirds to the former and one-third to the latter, A and B can claim to be dealt with as under, assuming that they have no other source of income—

	Partner A	Partner B
Share of above assessment .	£420	£210
Less abatement	£150	£160
Net assessment	£270	£50

Failing A and B so requesting to be dealt with, the firm would have to pay tax on the full £630.

Apportionment of Income Tax as between Partners

When a firm is assessed on its profits, and the individual partners do not prefer claims either for exemption or abatement of any description, the amount paid to the Inland Revenue authorities is applicable to all the partners of the firm *pro rata* according as they share profits, and it can consequently be debited in the firm's Profit and Loss Account in the ordinary way without any partner suffering injustice.

When, however, a partner puts forward a claim upon personal grounds for any abatement or deduction, or claims total exemption, it is only just that he shall not, through the medium of the firm's Profit and Loss Account, be charged with more than his fair share of the firm's Income Tax payment.

In such cases it becomes needful to adjust matters by crediting the individual partner with an allowance representing the sum to which his share of profits has been subjected to Income Tax charge in excess of its proper amount.

A case of this description is illustrated by the following example—

A firm consisting of two partners makes profits assessable to Income Tax of £1,000 in a given year. Of these

profits Partner A takes £800, and partner B £200. By reason of partner B preferring a claim to an abatement of £160 from the firm's return on the ground that his personal Income is not over £400 per annum, the assessment is reduced to £840, and £31 10*s*. tax (at 9*d*. in the £) is paid thereon.

If this £31 10*s*. is debited to the firm's Profit and Loss Account in the ordinary way, and profits are divided as to four-fifths to Partner A and one-fifth to Partner B, the latter bears, as a deduction from his share, tax to the extent of one-fifth of £31 10*s*., viz. £6 6*s*. On the other hand, his Income for Income Tax purposes is really only £40 (£200 less £160), and the benefit of the £160 abatement is ascribable and due to him.

If tax on the abatement of £160 (*i.e.* £6) be credited to partner B's Drawing Account, and debited to the Income Tax Account, in the firm's Ledger (raising it to £37 10*s*.), Partner B will subsequently bear, as a deduction from his share of the firm's profits, one-fifth of £37 10*s*., viz. £7 10*s*. If this debit of £7 10*s*. be compared with the £6 allowance placed to his credit, it will be seen that Partner B, in effect, pays £1 10*s*. in the shape of tax, which represents 9*d*. in the £ on the £40 assessable portion of his Income. Partner A, on the other hand, bears four-fifths of (£31 10*s*. + £6 = £37 10*s*.), *i.e.* £30, which again is 9*d*. in the £ on his share of the profits (£800).

Two examples are subjoined indicating the general lines upon which returns for Income Tax purposes should be constructed. In preparing such figures, however, in actual practice, it must always be borne in mind that a certain amount of diversity of practice exists among Surveyors, and that due allowance for this factor must always be made, and, to this extent, therefore, it is impossible to lay down any hard-and-fast rules for the preparation of a form of return which will meet the needs of all cases.

Example 1.—A. B. is a sub-manager employed by a firm of manufacturers. His salary for the years 1906, 1907, and 1908 has been £400, £420, and £440 respectively. He possesses £2,000 2½ per cent. Consols, and he has earned in 1906 £24, in 1907 £15, in 1908 £32 respectively by writing articles for a trade journal. His wife possesses £500 Grand Trunk Pacific Railway 3 per cent. Bonds, and £200 Natal Government 3½ per cent. Stock. His life is insured for £1,000 with the Guardian Assurance Company, Ltd., the annual premium amounting to £31 10*s*. Income Tax being taken at 9*d*. in the £ on earned income and on 1*s*. 2*d*. in the £ on unearned income, prepare A.B.'s return for the year 1909/10.

SOLUTION TO EXAMPLE 1.

A. B.'s return for Income Tax purposes for the year 1909–1910 will be as follows—

	Unearned Income. £ s. d.	Earned Income. £ s. d.
A. B.'s INCOME :—		
Average salary, 1906, 1907, 1908		420 0 0
Average earnings by writing articles		23 16 4
Dividends on Consols (£2,000)	50 0 0	
WIFE'S INCOME :—		
Interest on Grand Trunk Pacific Railway Bonds (£500)	15 0 0	
Interest on Natal Government 3½ per cent. Stock (£200)	7 0 0	
	72 0 0	443 16 4
Deduct abatement on Joint Income, £515 16*s.* 4*d.* (*i. e.* £443 16*s.* 4*d.* plus £72)		120 0 0
		323 16 4
Deduct allowance to be claimed for Life Insurance Premium		31 10 0
	£72 0 0	£292 6 4

On the unearned Income of £72, tax (at 1*s.* 2*d.* in the £) has already been deducted at its source, so that nothing further remains to be paid upon it. In many cases the Surveyor would require to have the counterpart of the interest warrants produced to him for inspection, or, in case they have been lost, a duplicate certificate from the undertaking concerned to the effect that the proper tax has been duly deducted from such Income prior to payment.

On the £292 6*s.* 4*d.*, representing the *earned* Income as shown above, tax at 9*d.* in the £ is payable under Schedule (D).

Example 2.—A firm's Profit and Loss Accounts for the three years 1906, 1907, and 1908 show profits respectively of £4,000, £4,300 and £4,100. The firm consists of two partners, X and Y.

These profits have been arrived at after charging the Profit and Loss Accounts with the following items—

1. An annual interest on partners' capital of 4 per cent. on £10,000.
2. An annual salary to the junior partner of £100.
3. Charitable donations unconnected with the business: 1906, £10; 1907, £15; 1908, £25.
4. Amounts set aside as Reserves for Bad and Doubtful Debts: 1906, £75; 1907, £120; 1908, £200.
5. Income Tax paid (including tax under Schedule (A)): 1906, £125; 1907, £161; 1908, £272.
6. Depreciation of Lease of Premises (Net Schedule (A) assessment on same, £1,200): 1906, £120; 1907, £125; 1908, £130.
7. Depreciation of Machinery and Plant at 10 per cent.: 1906, £85; 1907, £90; 1908, £100.

The Surveyor of Taxes, with whom interviews have taken place, will only allow the following sums for Reserve against Bad and Doubtful Debts in lieu of those set out in item No. 4—

viz. 1906, £50 ; 1907, £50 ; 1908, £100.

He also declines to allow more than £80 per annum for depreciation of Machinery and Plant instead of the amounts set out in item No. 7. Neither partner possesses any outside Income. Profits are shared as to two-thirds to X and as to one-third to Y. Y pays a Life Insurance Premium amounting to £60 per annum.

Prepare accounts showing the amounts upon which the partners are liable for Income Tax for the year 1909 to 1910.

Solution to Example 2.

		1906. £	1907. £	1908. £
Profits as per Profit and Loss Accounts		4,000	4,300	4,100
Add—				
Items disallowed :				
Interest on Capital		400	400	400
Partner's salary		100	100	100
Charitable donations		10	15	25
Excess Reserve for Bad and Doubtful Debts		25	70	100
Income Tax paid		125	161	272
Depreciation of Lease..		120	125	130
Depreciation of Machinery and Plant (see allowance below)		85	90	100
		4,865	5,261	5,227
Deduct :—	Per annum.			
Annual allowance for depreciation of Machinery and Plant..........................	£80			
Schedule (A) assessment on premises......	£1,200			
		1,280	1,280	1,280
Annual Profits as adjusted		£3,585	£3,981	£3,947

Profits as above,	1906	.	3,585
,, ,,	1907	.	3,981
,, ,,	1908	.	3,947
			3)11,513
Average annual profits		.	£3,837 13*s*. 4*d*.

Manner in which the Partners are treated—

Partner X.

	£ s. d.
Two-thirds of £3,837 13*s*. 4*d*. =	2,558 8 10
Net	2,558 8 10

Partner Y.

	£ s. d.
One-third of £3,837 13*s*. 4*d*. =	1,279 4 6
Deduct Life Assurance allowance, £60 per annum	60 0 0
Net	1,219 4 6

The firm will thus pay tax upon £3,777 13*s*. 4d. (*i. e.* £2,558 8*s*. 10*d.* plus £1,219 4*s*. 6*d*.).

EXAMPLES.

17A.

1. Enumerate the five "schedules" under which Income Tax is payable, and explain the classes of income to which they relate.
2. What is meant by taxing income "at its source"?
3. A market gardener is assessed for Income Tax purposes upon the profits arising out of the land he holds under Schedule (B). Can he claim to be assessed in any other way?
4. Explain what is known as "Property Tax"; how is this tax collected "at its source"? What provisions exist for the recoupment of the amount paid by the person paying this tax from the party who should bear it?
5. A person whose income is below £160 a year derives all his income from interest upon investments, from which tax has been deducted prior to payment to him. What remedy has he in this case?
6. What Income Tax allowances are made in respect of life assurance premiums paid by a tax-payer, and within what limits are these allowances granted?

17B.

1. What "abatements" are granted, in the case of Income Tax assessments, to persons whose income is below £700 per annum?
2. In preparing accounts for assessment under Schedule (D), enumerate five forms of expense, ordinarily charged in the Profit and Loss Account of a business, which the Income Tax surveyor would disallow as a charge against profits for Income Tax purposes.
3. What provisions exist as regards "differentiation" between earned and unearned income?
4. To what extent, and in what circumstances, can the assessment made upon a person under Schedule (A) be deducted by him from his profits in preparing a return of the latter for assessment under Schedule (D)?
5. What rights of appeal are possessed by a taxpayer who deems his assessment to be excessive?
6. Explain the provisions of the Income Tax law as regards the income of a married woman living with her husband.

17C.

From the following particulars prepare A. B.'s return for Income Tax purposes for the Government year ending April 5, 1910—

Salary.—1906, £200; 1907, £210; 1908, £220.

Wife's Income.—The interest upon £1,000 2½ per cent. Consols,* and £1,000 Canadian Pacific Railway 4 per cent. Debenture Stock.*

Life Assurance on A. B.'s life.—Annual premium, £15 6*s.* 9*d.*

Income from A. B.'s own Investments.—The income from 200 6 per cent. £1 preference shares in the Hampton Paper Mills, Ltd.* (paid half-yearly), from 500 £1 ordinary shares in the Southchurch Cycle Co., Ltd. (which latter have paid no dividend for four years), and from £100 Japanese Government 4½ per cent. Sterling Loan* (paid half-yearly).

* Income Tax is deducted by the agents effecting payment of the periodical interest or dividends upon these securities. Tax is to be taken as being 1*s.* 2*d.* in the £ on unearned income and 9*d.* in the £ on earned income.

17D.

From the following particulars prepare the return for assessment under Schedule (D) of Messrs. Brown, King & Co. for the Government year ending April 5, 1910—

Net Profits as per Profit and Loss Accounts.

1906.	1907.	1908.
Profit £2,615	Profit £824	Profit £1,112

The following items have been charged as "losses" before arriving at the above profits—

	1906.	1907.	1908.
Partners' Salaries	£200	£250	£250
Interest on Partners' Capital . .	£500	£550	£550
Income Tax paid	£25	£30	£50
Depreciation of Plant	£100	£150	£150
Improvements of Premises . .	£50	—	—
Provision for Bad and Doubtful Debts	£200	£50	£60

Note.—(1) The firm owns its own premises, which are assessed for Property Tax under Schedule (A) at £500 per annum net. (2) The surveyor of taxes is willing to allow £85 per annum for depreciation of plant in lieu of the amount stated above. (3) The surveyor declines to allow any provision for Bad or Doubtful Debts.

Answers.—

17C. A. B. must pay tax at 9*d.* in the £ on £34 13*s.* 3*d.* earned income, the tax on £81 10*s.* 0*d.* unearned income having already been paid by deduction at 1*s.* 2*d.* in the £.

17D. Assessable profit, £1,987.

CHAPTER XVIII

SELF-BALANCING LEDGERS

In the case of a small business a single Ledger frequently suffices to contain all the Ledger accounts necessary for a correct system of Double Entry book-keeping, and this Ledger, coupled with the Cash Book, provides the necessary material for the construction of a Trial Balance in the ordinary way. If this Trial Balance be correctly compiled, and the book-keeping itself has been accurately accomplished, the two sides of the Trial Balance should, as has already been explained, equal one another in amount, *i.e.* they should "agree."

As soon, however, as a business grows in size and the transactions needing record multiply in number, some subdivision of the Ledger becomes necessary; otherwise the volume of the entries which require to be posted will eventually exceed the accommodation available within the limits of a single book.

The usual subdivisions of the Ledger which are most commonly employed in a commercial house of some importance have already been described on page 34.

One or more Bought and Sold Ledgers may be kept, according to the requirements of the particular undertaking; and such separate Bought and Sold Ledgers may be devised so as to contain the personal accounts of creditors and debtors according to a given alphabetical or geographical division, or they may be collocated in any other convenient way.

Whatever the number of Ledgers employed, the balances contained in them, plus the balances of the cash in hand, and at the bank, if marshalled in the form of a Trial Balance, should result in an exact "agreement" between the total debit balances and the total credit balances. To this extent and in this manner only can the accuracy of the Ledgers be proved.

Whether under such circumstances the Ledgers em-

ployed be few or many, a single mistake in any one of them will prevent the "agreement" of the Trial Balance prepared from them all, but the Ledger-keepers will, in such an eventuality, have no indication of the nature or the whereabouts of the error. They will only know that a difference exists *somewhere* in the books. In such a case it may become necessary to search through *every* Ledger until the difference is found—a task which is at once disheartening to the Ledger-keepers, because of its magnitude and the uncertainty of any successful result, and wasteful from an employer's point of view, because of the immense amount of labour which is frequently involved.

By means of a system of "**Adjustment Accounts,**" which it is the purpose of this present chapter to explain, a mistake occurring in any particular Ledger out of a set of Ledgers can be definitely located as existing in that particular Ledger at the time of preparing the Trial Balance. Under these circumstances, therefore, it is necessary to check only such portion of the work as relates to that particular Ledger in which a "difference" has revealed itself in order to discover where this "difference" exists, and the annoying waste of labour involved in checking and re-checking those Ledgers which have been correctly posted is thereby avoided.

Incidentally, an "Adjustment Account" furnishes useful information as to the total balances appearing in a Ledger (*e.g.* the total amount owing by the Debtors whose accounts are kept in any particular Ledger), and enables the rise and fall in such totals to be periodically compared.

Most of the Ledgers to be found in a modern counting-house, except, perhaps, the "General Ledger," are confined to accounts of a similar nature, *e.g.* the Sold Ledger is usually reserved entirely for the personal accounts of the Debtors of the undertaking, while the Bought Ledger contains nothing except the Creditors' personal accounts, and so on.

Assuming, for a moment, that a given Debtors Ledger contains nothing except Debtors' accounts and debit balances throughout a specified period, it is possible, by the collection and analysis of certain information, to prepare an account or statement showing at any given date the total debit balances standing in that particular Ledger. Such an account is termed an "Adjustment Account."

The manner in which an Adjustment Account can be prepared is indicated in the following explanation—

In the case of a Debtors Ledger the transactions recorded will consist of—

1. *Debits* to the Sundry Debtors' accounts for goods sold to them.
2. *Credits* appearing in the Sundry Debtors' accounts for—
   (*a*) Cash received.
   (*b*) Bills received.
   (*c*) Discounts allowed.
   (*d*) Returns Inwards.
   (*e*) Allowances and other credits (if any).

If, to the total of the Debtors' balances appearing in the Ledger at the commencement of the period under review, there be added the total debit entries for the period (1), and if from this total there be deducted the total of the credit entries for the period (2 (*a*), (*b*), (*c*), (*d*), (*e*)), the remainder must necessarily represent the total of the debit balances appearing in the Ledger at the close of the period.

An account or statement prepared upon these lines will be in fact a "total" or summarized account for the Debtors Ledger, containing, in condensed form, every transaction which appears in the Debtors Ledger in detail, and showing a balance which equals the total of the balances of the separate Debtors' personal accounts appearing on the Ledger. In other words, it is a "summary" account for the Debtors Ledger.

Every item posted during the given period to every Debtor's account in the Ledger in detail appears also in the Adjustment Account prepared for that Ledger, as a part of one or other of the totals comprising the account. If, therefore, into an ordinary Debtors Ledger posted in the usual way there be interpolated an Adjustment Account prepared for that particular Ledger, and having its sides reversed (*i.e.* an Adjustment Account in which everything appears on the opposite side to which it appears in the individual Debtors' accounts) the result is that every ordinary entry in the Ledger is compensated for by an entry (in total) in the Adjustment Account. The effect of this compensation is that if a Trial Balance of the Ledger be extracted (including, of course, the balance of the Adjustment Account) both sides of the

Trial Balance must equal one another; the Ledger has thus become "**self-balancing.**" If the Trial Balance of the Ledger in question fails to "agree" it indicates that an error has been made somewhere in that particular Ledger. An Adjustment Account for the purpose of rendering a Creditors Ledger self-balancing can be prepared on precisely identical principles.

The student should be able to understand readily that the insertion, in each of a number of Ledgers, of an Adjustment Account relating to that particular Ledger, is of great convenience in book-keeping. If upon the extraction of a Trial Balance from a Ledger its two sides equal one another, the Ledger may be assumed to have been correctly posted, and the opposite inference naturally arises if disagreement occurs. When Adjustment Accounts are employed it no longer becomes a question of tedious search in order to discover which out of a number of Ledgers contains an error, since the location of the error reveals itself clearly, by the mere fact that the two sides of the Trial Balance of that particular Ledger fail to agree.

An example of an Adjustment Account prepared for a "Sold" Ledger (*i. e.* a Debtors Ledger) is on p. 330. This account is constructed as it would appear in ordinary use. The postings appearing in it on either side consist of totals extracted from the books of original entry, and the starting balance was obtained from the previous Trial Balance of the Debtors Ledger. A detailed explanation of the manner in which the account is prepared and its constituent elements arrived at may more conveniently be postponed until the principles involved have been completely set forth.

If an Adjustment Account be interpolated in a Debtors Ledger in the manner already shown, solely for the purpose of facilitating the balancing of that particular Ledger, the book-keeping, which, without such Adjustment Account, was book-keeping by "double entry," would be more correctly described as having assumed the shape of the "triple entry" variety, if such a term can be permitted. In other words, every transaction would appear once on the debit (or credit) side of the Debtors Ledger, and once on the opposite side in some other Ledger in the ordinary manner, and once again (included with numerous other items in a total) in the Adjustment Account. The obvious advantage of rendering the Debtors

Ledger "self-balancing" would have been gained by inserting an Adjustment Account in it; but there would not have been provided, anywhere in the system of book-keeping, compensating contra entries for the postings appearing in the Adjustment Account. The result of this condition of things would be that the "agreement" of the combined Trial Balance of all the Ledgers would have been destroyed.

Specimen Adjustment Account kept in Sold (Debtors) Ledger—

GENERAL LEDGER ADJUSTMENT ACCOUNT

Dr. for the year ended June 30, 1909 Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
June 30	To Total Cash received from Debtors for the half-year........		35,716	0	10	Jan. 1	By Total Debtors' Balances at this date.......		10,932	14	6
" 30	" Total Discounts allowed to Debtors for the half-year...		194	16	8	June 30	" Sales for the half-year........		65,021	17	9
" 30	" Total Goods returned by Debtors during the half-year...		362	7	11						
" 30	" Total Bills Receivable received from Debtors during the half-year..		16,295	3	6						
" 30	" Balance carried forward, being Total Debtors' Balances at the close of the half-year........		23,386	3	4						
		£	75,954	12	3			£	75,954	12	3
						1909.					
						July 1	By Balance brought forward.............		23,386	3	4

It is eminently desirable that, even in the construction of Adjustment Accounts, the cardinal principle of double entry, viz. that every debit entry requires to be compensated by a credit entry, shall be rigidly adhered to. In order to carry this principle into effect it becomes necessary therefore to open in one Ledger or other, an account duplicating the postings made in the Adjustment Account, but recording them on opposite sides to those upon which they appear in the Adjustment Account. By opening an account of this nature the "agreement" (*i. e.* the appear-

ance of equal balances on both sides) of the combined Trial Balance of all the Ledgers is restored, and the book-keeping becomes, so to speak, a "quadruple entry" system. The "contra" Adjustment Account relative to the "Adjustment Account" illustrated above is appended as an illustration.

Specimen "Contra" Adjustment Account for a Debtors Ledger, as kept in the "Private" or "General" Ledger—

DEBTORS LEDGER ADJUSTMENT ACCOUNT

Dr. Cr.

1909.		£	s.	d.	1909.		£	s.	d.
Jan. 1	To Total Debtors' Balances as at this date........	10,982	14	6	June 30	By Total Cash received from Debtors for the half-year........	35,716	0	10
June 30	,, Sales for the half-year........	65,021	17	9	,, 30	,, Total Discounts allowed to Debtors for the half-year...	194	16	8
					,, 30	,, Total Goods returned by Debtors during the half-year...	362	7	11
					,, 30	,, Total Bills Receivable received from Debtors during the half-year...	16,295	8	6
					,, 30	,, Balance carried down, being Total Debtors' Balances at the close of the half-year........	23,386	3	4
		£ 75,954	12	3			£ 75,954	12	3
1909. July 1	To Balance brought forward	23,386	3	4					

NOTE.—This account should be read in conjunction with the Adjustment Account on p. 330, of which it is, in all respects, the converse.

This second Adjustment Account, which may, perhaps, for the sake of convenience, be termed the "contra" Adjustment Account, is usually inserted in the "Nominal," "General," or "Private" Ledger (whichever term is used to designate the Ledger containing accounts other than those of Debtors and Creditors), and its inclusion therein has other notable uses beyond the useful effect of causing the combined Trial Balance of all the Ledgers to agree.

The Adjustment Account first referred to in connec-

tion with the Debtors Ledger (viz. that which is inserted at the end of the Debtors Ledger in the form of a summary of the Debtors Ledger with the sides reversed) has the effect of causing the Trial Balance of the Debtors Ledger to agree exactly, and it derives this property from the fact that its balance exactly equals the total of the Debtors balances outstanding at the date of balancing. It shows this balance however on the wrong side of the Ledger for a Debtors' account from the book-keeper's point of view, *i.e.* on the credit side.

The "contra" Adjustment Account in the "Private" or "General" Ledger, however, contains the same total as the Adjustment Account in the Debtors Ledger, but the balance of the former account appears on the opposite side to that upon which the balance of the latter shows itself, viz. the debit side. The balance of the "contra" Adjustment Account in the "Private" or "General" Ledger thus shows in one total the combined balance of the Debtors' accounts appearing in the Debtors Ledger, and it reveals this balance as a debit one. In other words, the "contra" Adjustment Account in the "General Ledger" shows at any time the total owing to the firm by the various Debtors whose accounts appear in the particular Ledger to which the Adjustment Account relates, and it shows this balance on the correct side for a Debtors' account from a book-keeper's point of view, *i.e.* on the debit side.

If similar "contra" Adjustment Accounts are created in the General Ledger for all the Debtors Ledgers, and also for all the Creditors Ledgers (for, needless to say, Adjustment Accounts can be designed for any type of Ledger upon similar principles to those previously explained as applicable to Debtors Ledgers), and, in addition, for all other Ledgers of whatsoever kind they may be, the result is that the General Ledger contains, in a condensed form, a statement of the whole of the firm's financial position, and permits a Trial Balance to be easily and expeditiously made without the necessity of laboriously extracting the individual balances of all the Debtors' and Creditors' personal accounts.

The General Ledger also becomes self-balancing, subject to the inclusion of the Cash Book balance, *i.e.* a Trial balance of the General Ledger should, if the Cash balance be brought into account, show debit and credit totals which equal one another.

The value and convenience of these facilities is obviously very great in the case of businesses where the Debtors and Creditors Ledgers are numerous and contain much detail, and where, but for this system of Adjustment Accounts, any preparation of financial statements would have to be postponed until the combined Trial Balance of all the Ledgers had been made to agree.

In actual practice an Adjustment Account, as kept in a Debtors Ledger, is not styled the Adjustment Account for that Ledger, but is styled the Adjustment Account for the Ledger in which the "contra" Adjustment Account appears. An Adjustment Account kept in a Debtors Ledger, and corresponding to a "contra" Adjustment Account in the General Ledger, will thus usually be called the "General Ledger Adjustment Account"; upon similar principles the relative "contra" Adjustment Account, as kept in the General Ledger, would usually be called the "Debtors Ledger Adjustment Account," or the "Sold Ledger Adjustment Account," as the case might be.

In the foregoing remarks it has been assumed that a "Debtors" Ledger contains nothing except "debit" balances; and as an aid to the explanation of the theory of self-balancing Ledgers this assumption is a useful one. In practice, however, the "Debtors" Ledgers occasionally contain a few small credit balances arising out of the fact that goods have been returned, or allowances made, or from other small matters of this nature. Where items of this kind exist, the relative Adjustment Account in the "Debtors" Ledger and the "contra" Adjustment Account in the "General" Ledger show the *net* balance of the Debtors Ledger, *i.e.* the difference between the total of the Debtors' balances (which will be large) and the total of the few occasional credit balances (which will usually be insignificant). The fact that a "contra" Adjustment Account kept in the General Ledger for any other Ledger shows a "net" balance for the Ledger to which it relates, must be borne in mind when using the Trial Balance of the General Ledger as an approximate Balance Sheet or statement of the financial position; if the few credit balances appearing in a "Debtors" Ledger, or the few debit balances appearing in a "Creditors" Ledger (for the latter may arise out of circumstances the converse of those enumerated above), amount to a substantial sum, the Trial Balance of the

General Ledger is not a completely satisfactory index to the financial position in all its details.

It has already been mentioned that Adjustment Accounts are prepared for Creditors Ledgers as well as for Debtors Ledgers. An Adjustment Account prepared for use in a Trade Creditors Ledger will usually contain the following items—

First, on the *debit* side of the Adjustment Account in the Creditors Ledger and on the *credit* side of the corresponding "contra" Adjustment Account in the General Ledger—

1. The total Creditors' balances (or the difference between the total Creditors' balances and the few debit balances appearing in the Creditors Ledger) at the commencement of the period covered by the Adjustment Account.
2. The total purchases made from Creditors for the period.
3. Any other transactions appearing to the credit of various persons' accounts in the Creditors Ledger, and any transfers to accounts in other Ledgers.

Second, on the *credit* side of the Adjustment Account in the Creditors Ledger, and on the *debit* side of the corresponding "contra" Adjustment Account in the General Ledger—

1. The total of the payments to Creditors for the given period.
2. The total of the discount allowed by Creditors for the given period.
3. The total of the Bills Payable given to Creditors for the given period.
4. The total of the goods returned to Creditors over the given period.
5. Any other transactions appearing to the debit of various persons' accounts in the Creditors Ledger, and any transfers to accounts in other Ledgers.

The balance of such Adjustment Account shows the total due to the Creditors at the close of the period under review, or, if there be any debit balances appearing in the Creditors Ledger, the "net balance" of that Ledger.

In the case of an Adjustment Account for a Debtors

Ledger, amounts written off to the Bad Debts Account at the end of the year require to be passed through the Adjustment Account, in common with all other entries affecting the Ledger.

Forms of an Adjustment Account prepared for insertion in a Creditors Ledger and the relative "contra" Adjustment Account which would appear in the General Ledger are appended.

Adjustment Account as kept in a Creditors (Bought) Ledger—

"GENERAL LEDGER" ADJUSTMENT ACCOUNT

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
Jan. 1	To Balance		84,021	15	9	June 30	By Total Returns		1,199	14	6
June 30	" Total Purchases		109,826	15	0	" 30	" Total Cash		157,262	15	9
						" 30	" Total Discount		1,241	13	2
						" 30	" Total Bills Payable		10,050	0	0
						" 30	" Balance carried forward		23,594	7	4
		£	193,348	10	9			£	193,348	10	9
1909.											
June 30	To Balance brought down................		23,594	7	4						

"Contra" Adjustment Account as kept in the General Ledger—

"CREDITORS" (OR "BOUGHT") LEDGER ADJUSTMENT ACCOUNT

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
June 30	To Total Returns		1,199	14	6	Jan. 1	By Balance		84,021	15	9
" 30	" Total Cash		157,262	15	9	June 30	" Total Purchases		109,826	15	0
" 30	" Total Discount		1,241	13	2						
" 30	" Total Bills Payable		10,050	0	0						
" 30	" Balance carried forward		23,594	7	4						
		£	193,348	10	9			£	193,348	10	9
						1909.					
						June 30	By Balance brought down................		23,594	7	4

The general nature and uses of Adjustment Accounts having thus been outlined, there remains still to be explained the method of their preparation.

Both the Adjustment Account in the Personal Ledger and the corresponding "contra" Adjustment Account in the General Ledger must start with the total balances (or, alternatively, the difference between the total debit balances and the total credit balances) appearing on the Ledger at the commencement of a given period. These details are obtained from the Trial Balance of the Ledger extracted at the commencement of the period, and the requisite entry is made direct in the Adjustment Account and "contra" Adjustment Account, on one side of the one account, and on the opposite side of the other.

Where there is more than one Bought (Creditors) and one Sold (Debtors) Ledger in use, and Adjustment Accounts are kept for each Ledger, it is desirable to keep separate Purchases Journals and Sales Journals for each Bought and Sold Ledger. The total purchases or sales shown by each separate Purchases and Sales Journal are, of course, posted to the "Purchases" and "Sales" accounts in the ordinary way, and the fact that separate books are kept is useful mainly for the purposes of the Adjustment Accounts. Each Purchases Journal and each Sales Journal contains the purchases and sales relative to its respective Ledger, and these totals are required for insertion in due course in the Adjustment and "contra" Adjustment Accounts.

The total amount of the purchases shown by each separate Purchases Journal is posted to the debit of the Adjustment Account created in the Bought Ledger, and also to the credit of the relative Bought Ledger "contra" Adjustment Account kept in the General Ledger.

The total of the sales as shown by each separate Sales Journal is posted to the credit of the Adjustment Account created in the Sales Ledger, and also to the debit of the relative Sales Ledger "contra" Adjustment Account kept in the General Ledger.

Where no separate Sales and Purchases Journals are kept for the separate Sold and Bought Ledgers, the total of the sales and purchases applicable to each individual Ledger must be obtained by means of analyzed Sales and Purchases Journals, similar in principle to those set forth on pages 59 and 64, analysis columns being included for each separate Ledger, and each transaction being extended into its relative Ledger analysis column. The totals of the purchases and sales shown at the end of a period, applicable to any given Ledger, must be entered

in the Adjustment and "contra" Adjustment Accounts for that Ledger upon the lines previously laid down.

The foregoing explanation has shown how to compile—

1. In the case of a Bought Ledger Adjustment Account, (*a*) the starting balance, (*b*) the total of the purchases for the period (*i. e.* the whole of the *debit* side of the account with the exception of any special items).
2. In the case of a Sold Ledger Adjustment Account, (*a*) the starting balance, (*b*) the total of the sales for the period (*i. e.* the whole of the *credit* side of the account with the exception of any special items).

The other sides of the Adjustment Accounts are made up of—

1. Cash receipts (Sold Ledger) or payments (Bought Ledger).
2. Discounts allowed (Sold Ledger) or received (Bought Ledger).
3. Bills received (Sold Ledger) or accepted (Bought Ledger).
4. Returns Inwards (Sold Ledger) or Outwards (Bought Ledger).
5. Transfers to other Ledgers and special transactions (both Ledgers).

In order to ascertain the total cash transactions (receipts or payments) applicable to the various Ledgers, Analysis Columns, headed with the name of the appropriate Ledger, are inserted in the Cash Book; in these analysis columns all the debit or credit entries relating to the respective Bought or Sold Ledgers are extended as and when they are entered in the Cash Book. These analysis columns form no part of the ordinary Double Entry system, but merely serve to compile the necessary totals for subsequent inclusion in the Adjustment Accounts at the end of the given period. The totals of these analysis columns must be carried forward from page to page until the end of the desired period, and their use is analogous to the employment of the analysis columns suggested above as an alternative method of obtaining the totals of Ledger postings in connection with the Purchases and Sales.

An elementary form of Cash Book including these analysis columns will be found on page 341. This book has been used in an example which has been appended in

order to illustrate the working of Adjustment Accounts generally. The student may be reminded that as many analysis columns will be necessary in the Cash Book as there are Adjustment Accounts to be prepared.

The manner in which the total discounts allowed (or received), the total bills received (or accepted), the total returns inwards (or outwards), and the total of special transactions needed for insertion in Adjustment Accounts kept for Sales (or Purchases) Ledgers are collected, varies to a great extent with the volume of these transactions passing through the Ledger. Where a three-column type of Cash Book is kept, the Cash Discounts allowed or received will be incorporated in the Adjustment Accounts in company with the cash transactions to which they relate, and no special provision for their ascertainment is therefore necessary. In the case of special discounts, recorded probably in the Journal, the circumstances are different, and these items are usually obtained by careful search, either in the Journal or in any other book of original entry in which they may appear. They must be arranged on analysis paper, according to the respective Bought or Sold Ledger to which they relate, and the total of them must be included on the appropriate sides in the Adjustment and "contra" Adjustment Accounts. In order to obtain the totals of Returns (inwards and outwards), and Bills (received or accepted), and other classes of transactions required to be included in the Adjustment Accounts, analysis columns similar to those inserted in the Cash Book, Purchases Book, and Sales Book are usually inserted in the particular book of original entry through which these items pass. As the transactions are entered in these books of original entry immediately upon their occurrence, they are extended into (*i.e.* inserted in) the appropriate analysis column relating to the Ledger into which they are finally posted. These analysis columns are added up in the ordinary way at the end of the period under review, and the totals, representing the totals of those individual classes of transactions applicable to particular Ledgers, are placed in the Adjustment Account as kept in the Ledger in question, and in the corresponding "contra" Adjustment Account as kept in the General Ledger; in the latter they appear on the same side of the account as that upon which the detailed postings in the individual Ledger accounts are shown, and in the former they appear on the opposite side of the account.

Any special or unusual transactions which may appear in the Ledgers, and any transfers as between one Ledger and another, must be brought into the Adjustment Accounts. Transactions of this type are apt to be forgotten in compiling the Adjustment Accounts, and in order to obviate this difficulty a special memorandum book, or "**Transfer Journal**," ruled to suit the special circumstances of the business, is frequently employed.

An elementary example is annexed in which the system of Self-balancing Ledgers is illustrated. In this example only one Bought and one Sold Ledger have been employed in addition to the General Ledger, but the principles involved in the keeping of Adjustment Accounts for any number of Ledgers are, of course, identical.

The classes of transactions shown as passing through the Bought and Sold Ledgers are confined to Cash, Discounts, Purchases, Sales and Returns (inwards and outwards); in actual practice numerous additional classes or types of transaction frequently arise, and require to be duly included in the Adjustment Accounts. In such cases the collection of the requisite totals is almost invariably effected by the employment of analysis columns in the appropriate book of original entry.

The Trial Balance of Henry Brown on January 1, 1909 was as under—

				Dr.			Cr.		
				£	s.	d.	£	s.	d.
Cash at the Bank				1,009	4	2			
Debtors—	£	s.	d.						
H. Browning .	272	19	6						
J. Jones . .	184	9	3						
O. Roberts .	432	9	5						
				889	18	2			
Freehold Premises				1,000	0	0			
Creditors—									
L. Leon . .	1,724	16	9						
F. Lucien .	392	14	4						
J. Hubert .	25	1	2						
							2,142	12	3
Stock on hand				1,094	16	8			
Capital Account—H. Brown							1,851	6	9
				£3,993	19	0	£3,993	19	0

His transactions for the month of January were as follows—

1909.			£	s.	d.
Jan.	1.	Drew from the Bank for office cash . .	15	0	0
,,	2.	Bought goods of L. Leon (on credit) . .	105	10	0
,,	5.	Sold goods to H. Browning (on credit) . .	206	15	9
,,	10.	Paid L. Leon on account (by cheque) . .	500	0	0
		Being allowed discount	10	0	0
,,	10.	Paid F. Lucien on account (by cheque) . .	200	0	0
		Being allowed discount	2	0	0
,,	10.	Paid J. Hubert (by cheque)	25	1	2
,,	12.	Bought goods of L. Leon (on credit) . .	202	14	9
,,	13.	Sold goods (on credit) to H. Browning . .	100	9	6
,,	13.	Sold goods to J. Jones	65	4	3
,,	13.	Sold goods to M. Weaver	32	17	11
,,	14.	Received from H. Browning cheque for . .	400	0	0
		And banked the same.			
,,	14.	Allowed H. Browning discount	4	0	0
,,	15.	Received from M. Weaver cheque for . .	32	17	11
		And banked the same.			
,,	16.	J. Jones returned as unsuitable certain goods sold to him on the 13th inst.—allowed him full invoice price therefor	25	9	10
,,	17.	Bought goods from L. Leon (on credit) .	500	0	0
,,	18.	Returned to L. Leon half the goods bought from him on the 17th inst. as "not up to sample"	250	0	0
,,	19.	Paid by cheque salaries and wages to date .	35	0	0
,,	19.	Paid L. Leon on account (by cheque) . .	200	0	0
		Being allowed discount	4	0	0
,,	22.	Bought goods from F. Lucien (on credit) .	102	19	6
,,	23.	Returned to F. Lucien the whole of the goods supplied by him on the 22nd January, goods of a wrong description having been supplied	102	19	6
,,	24.	Paid from office cash sundry charges on the goods returned to F. Lucien as unsuitable, which charges are to be debited to his account	6	9	2
,,	28.	Sold goods to M. Weaver (on credit) . .	200	9	6
,,	30.	M. Weaver returned part of the goods sold to him on the 28th inst., invoiced at . .	10	9	6
,,	30.	And forwarded his cheque for . . .	100	0	0
		Which was duly banked.			
,,	30.	Allowed M. Weaver discount	1	0	0
,,	31.	Paid (by cheque) wages and salaries to date .	15	4	6
,,	31.	Paid from office cash sundry expenses to date	3	8	4

The foregoing transactions are to be entered in Henry Brown's Ledgers, consisting of a General Ledger, a Bought Ledger and a Sold Ledger. The Bought and Sold Ledgers are to be made self-balancing.

At the close of the period covered by the transactions, separate Trial Balances of each of the Ledgers are to be prepared. Trading and Profit and Loss Accounts and a Balance Sheet are not required, as the exercise is merely to exemplify the working of the system of self-balancing Ledgers and Adjustment Accounts.

CASH BOOK

Dr.

Date.	Details.	Folio.	Discount. £ s. d.	Cash. £ s. d.	Bank. £ s. d.	Analysis Columns. Sold Ledger No. 1. £ s. d.	Analysis Columns. Sold Ledger No. 2.* £ s. d.
1909. Jan. 1	To Balance......				1,009 4 2		
,, 1	,, Bank	Contra		15 0 0			
,, 14	,, H. Browning	S.L. 1	4 0 0		400 0 0	404 0 0	
,, 15	,, M. Weaver..	S.L. 4			82 17 11	82 17 11	
,, 30	,, M. Weaver..	S.L. 4	1 0 0		100 0 0	101 0 0	
			5 0 0				
			Debit Discount Account in General Ledger, Fo. 5.				
			£	15 0 0	1,542 2 1	587 17 11 ‡	
1909. Jan. 31	To Balances † brought down	✓		5 2 6	551 16 5		

Cr.

Date.	Details.	Folio.	Discount. £ s. d.	Cash. £ s. d.	Bank. £ s. d.	Analysis Columns. Bought Ledger No. 1. £ s. d.	Analysis Columns. Bought Ledger No. 2.* £ s. d.
1909. Jan. 1	By Office Cash	Contra			15 0 0		
,, 10	,, L. Leon.....	B.L. 1	10 0 0		500 0 0	510 0 0	
,, 10	,, F. Lucien...	B.L. 2	2 0 0		200 0 0	202 0 0	
,, 10	,, J. Hubert..	B.L. 3			25 1 2	25 1 2	
,, 19	,, Salaries and Wages	G.L. 4			35 0 0		
,, 19	,, L. Leon.....	B.L. 1	4 0 0		200 0 0	204 0 0	
,, 24	,, F. Lucien...	B.L. 2		6 9 2		6 9 2	
,, 31	,, Salaries and Wages to date	G.L. 4			15 4 6		
,, 31	,, General Expenses	G.L. 5		8 8 4			
			16 0 0				
			Credit Discount Account in General Ledger Fo. 5.				
,, 31	,, Balances carried forward	✓		5 2 6	551 16 5		
			£	15 0 0	1,542 2 1	947 10 4 §	

* These additional Analysis Columns, though not used in working the present example, are included for the purpose of showing how transactions should be analyzed when more than one "Bought" or "Sold" Ledgers are in use.

† This balance, for Trial Balance purposes, ranks as a "General Ledger" balance, the assumption being that the Cash Account is in the "General Ledger."

‡ This total, being the total of the Cash Receipts applicable to the Sold Ledger, is posted (1) To the debit of the General Ledger Adjustment Account in the Sold Ledger, (2) To the credit of the Sold Ledger Adjustment Account in the General Ledger.

§ This total, being the total of the Cash Payments applicable to the Bought Ledger, is posted (1) To the credit of the General Ledger Adjustment Account in the Bought Ledger, (2) To the debit of the Bought Ledger Adjustment Account in the General Ledger.

PURCHASES BOOK

			£	s.	d.
1909.					
Jan. 2	L. Leon	B.L. 1	105	10	0
„ 12	L. Leon	B.L. 1	202	14	9
„ 17	L. Leon	B.L. 1	500	0	0
„ 22	F. Lucien	B.L. 2	102	19	6
	Total*	G.L. 6	£911	4	3

* Posted (1) To the debit of Purchases Account in the General Ledger; (2) To the debit of the General Ledger Adjustment Account in the Bought Ledger; (3) To the credit of the Bought Ledger Adjustment Account in the General Ledger.

SALES BOOK

			£	s.	d.
1909.					
Jan. 5	H. Browning	S.L. 1	206	15	9
„ 13	H. Browning	S.L. 1	100	9	6
„ 13	J. Jones	S.L. 2	65	4	3
„ 13	M. Weaver	S.L. 4	32	17	11
„ 28	M. Weaver	S.L. 4	200	9	6
	Total*	G.L. 7	£605	16	11

* Posted (1) To the credit of the Sales Account in the General Ledger; (2) To the credit of the General Ledger Adjustment Account in the Sold Ledger; (3) To the debit of the Sold Ledger Adjustment Account in the General Ledger.

RETURNS INWARDS BOOK

			£	s.	d.
1909.					
Jan. 16	J. Jones	S.L. 2	25	9	10
„ 28	M. Weaver	S.L. 4	10	9	6
	Total*	G.L. 8	£35	19	4

* Posted (1) To the debit of the Returns Inwards Account in the General Ledger; (2) To the debit of the General Ledger Adjustment Account in the Sold Ledger; (3) To the credit of the Sold Ledger Adjustment Account in the General Ledger.

RETURNS OUTWARDS BOOK

			£	s.	d.
1909.					
Jan. 18	L. Leon	B.L. 1	250	0	0
„ 22	F. Lucien	B.L. 2	102	19	6
	Total*	G.L. 9	£352	19	6

* Posted (1) To the credit of the Returns Outwards Account in the General Ledger; (2) To the credit of the General Ledger Adjustment Account in the Bought Ledger; (3) To the debit of the Bought Ledger Adjustment Account in the General Ledger.

GENERAL LEDGER

Freehold Premises

1 Dr. Cr. 1

			£	s.	d.				£	s.	d.
1909.											
Jan. 1	To Balance		1,000	0	0						
		£	1,000	0	0						

2 Stock Account 2

Dr. | Cr.

			£	s.	d.				£	s.	d.
1909.											
Jan. 1	To Balance.......		1,094	16	8						
		£	1,094	16	8						

3 H. Brown, Capital Account 3

Dr. | Cr.

			£	s.	d.				£	s.	d.
						1909.					
						Jan. 1	By Balance......		1,851	6	9
								£	1,851	6	9

4 Salaries and Wages 4

Dr. | Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
Jan. 19	To Bank...... ...	C.	85	0	0	Jan. 31	By Balance carried down	✓	50	4	6
„ 31	„ Bank..........	C.	15	4	6						
		£	50	4	6			£	50	4	6
1909.											
Jan. 31	To Balance......	✓	50	4	6						

5 Discount Account 5

Dr. | Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
Jan. 31	To Discount allowed..........	C.	5	0	0	Jan. 31	By Discount received............	C.	16	0	0
„ 31	„ Balance carried down	✓	11	0	0						
		£	16	0	0			£	16	0	0
						1909.					
						Jan. 31	By Balance brought down	✓	11	0	0

6 Purchases Account 6

Dr. | Cr.

			£	s.	d.				£	s.	d.
1909.											
Jan. 31	To Purchases, as per Purchases Book...	P.	911	4	8						
		£	911	4	8						

7 Sales Account 7

Dr. | Cr.

			£	s.	d.				£	s.	d.
						1909.					
						Jan. 31	By Sales, as per Sales Book.....	S.	605	16	11
								£	605	16	11

8 **Returns Inwards** 8

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.											
Jan. 31	To Returns, as per Returns Inwards Book	R. I.	35	19	4						
			35	19	4						

9 **Returns Outwards** 9

Dr. Cr.

			£	s.	d.				£	s.	d.
						1909.					
						Jan. 31	By Returns, as per Returns outwards Book............	R.O.	352	19	6
								£	352	19	6

10 **General Expenses** 10

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.											
Jan. 31	To Cash...........	C.	8	8	4						
		£	8	8	4						

11 **Bought Ledger Adjustment Account** 11

Dr. Cr.

			£	s.	d.				£	s.	d.
1909.						1909.					
Jan. 31	To Total Cash and Discount for the month (per Analysis Column of the Cash Book)...	B. L. 4	917	10	4	Jan. 1	By Total Creditors' Balances at this date...	B. L. 4	2,142	12	3
" 31	" Total Returns Outward for the month (per Returns Outwards Book).	B. L. 4	352	19	6	" 31	" Total Purchases for the month (as per Purchases Book)	B. L. 4	911	4	3
" 31	" Balance carried forward, being the Total Creditors at this date...	✓	1,753	6	8						
		£	3,053	16	6			£	3,053	16	6
						1909.					
						Jan. 31	By Balance brought down	✓	1,753	6	8

12 Sold Ledger Adjustment Account 12

Dr. Cr.

1909.			£	s.	d.	1909.			£	s.	d.
Jan. 1	To Total Debtors' Balances at this date......	S.L. 5	889	18	2	Jan. 31	By Cash and Discount for the month (per Cash Book Analysis Column)..	S.L. 5	537	17	11
,, 31	,, Sales for the month (per Sales Book)..	S.L. 5	605	16	11	,, 31	,, Returns Inwards for the month (per Returns Inwards Book)	S.L. 5	35	19	4
						,, 31	,, Balance carried forward (Total Debtors at this date)..	✓	921	17	10
		£	1,495	15	1			£	1,495	15	1
1909. Jan. 31	To Balance brought down	✓	921	17	10						

BOUGHT LEDGER

1 L. Leon 1

Dr. Cr.

1909.			£	s.	d.	1909.			£	s.	d.
Jan. 10	To Cash and Discount.....	C.	510	0	0	Jan. 1	By Balance		1,724	16	9
,, 18	,, Returns	R.O.	250	0	0	,, 2	,, Goods.........	P.	105	10	0
,, 19	,, Cash and Discount.....	C.	204	0	0	,, 12	,, Goods.........	P.	202	14	9
,, 31	,, Balance carried down	✓	1,569	1	6	,, 17	,, Goods.........	P.	500	0	0
		£	2,533	1	6			£	2,533	1	6
						1909. Jan 31	By Balance brought down	✓	1,569	1	6

2 F. Lucien 2

Dr. Cr.

1909.			£	s.	d.	1909.			£	s.	d.
Jan. 10	To Cash and Discount....	C.	202	0	0	Jan. 1	By Balance.....		392	14	4
,, 22	,, Returns	R.O.	102	19	6	,, 22	,, Goods........	P.	102	19	6
,, 24	,, Cash charges on goods returned....	C.	6	9	2						
,, 31	,, Balance carried down	✓	184	5	2						
		£	495	18	10			£	495	18	10
						1909. Jan. 31	By Balance brought down	✓	184	5	2

3 J. Hubert 3

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Jan. 10	To Cash.........	C.	25	1	2	Jan. 1	By Balance......		25	1	2
		£	25	1	2			£	25	1	2

4 General Ledger Adjustment Account 4

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Jan. 1	To Total Creditors at this date...........	B.L. 11	2,142	12	3	Jan. 31	By Total Cash and Discount for the month (per Analysis Column of Cash Book)..	G.L. 11	947	10	4
,, 31	,, Total Purchases for the month (per Purchases Book)	G.L. 11	911	4	3	,, 31	,, Total Returns Outwards for the month (per Returns Outwards Book)	G.L. 11	352	19	6
						,, 31	,, Balance carried forward, being the Total Creditors at this date......	✓	1,753	6	8
		£	3,053	16	6			£	3,053	16	6
1909.											
Jan. 31	To Balance brought down	✓	1,753	6	8						

SOLD LEDGER

1 H. Browning 1

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Jan. 1	To Balance		272	19	6	Jan. 16	By Cash and Discount	C.	404	0	0
,, 5	,, Goods	S.	206	15	9	,, 31	,, Balance carried down ...	✓	176	4	9
,, 13	,, Goods	S.	100	9	6						
		£	580	4	9			£	580	4	9
1909.											
Jan. 31	To Balance brought down	✓	176	4	9						

2 S. Jones 2

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Jan. 1	To Balance		184	9	3	Jan. 16	By Returns......	R.I.	25	9	10
,, 13	,, Goods	S.	65	4	3	,, 31	,, Balance carried down	✓	224	3	8
		£	249	13	6			£	249	13	6
1909.											
Jan. 31	To Balance brought down	✓	224	3	8						

3 O. Roberts 3

Dr.											Cr.
1909.			£	s.	d.						
Jan. 1	To Balance		482	9	5						
		£	482	9	5						

4 M. Weaver 4

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Jan. 13	To Goods	S.	32	17	11	Jan. 15	By Cash	C.	32	17	11
„ 28	„ Goods	S.	200	9	6	„ 30	„ Returns	R.I.	10	9	6
						„ 30	„ Cash and Discount	C.	101	0	0
						„ 31	„ Balance carried down ...	✓	89	0	0
		£	233	7	5			£	233	7	5
1909.											
Jan. 31	To Balance brought down	✓	89	0	0						

5 General Ledger Adjustment Account 5

Dr.											Cr.
1909.			£	s.	d.	1909.			£	s.	d.
Jan. 31	To Cash and Discount for month (per Analysis Column of Cash Book)	G.L. 12	537	17	11	Jan. 1	By Total Debtors' Balances as at this date	G.L. 12	889	18	2
„ 31	„ Returns Inwards for month (per Returns Inwards Book)	G.L. 12	35	19	4	„ 31	„ Sales for month (per sales Book)	G.L. 12	605	16	11
„ 31	„ Balance carried forward (Total Debtors at this date)	✓	921	17	10						
		£	1,495	15	1			£	1,495	15	1
						1909.					
						Jan. 31	By Balance brought forward...........	✓	921	17	10

GENERAL LEDGER

Trial Balance, as at January 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
Freehold Premises	1	1,000	0	0			
Stock (January 1, 1909)	2	1,094	16	8			
H. Brown, Capital Account	3				1,851	6	9
Salaries and Wages	4	50	4	6			
Discount	5				11	0	0
Purchases	6	911	4	3			
Sales	7				605	16	11
Returns Inwards	8	35	19	4			
Returns Outwards	9				352	19	6
General Expenses	10	3	8	4			
Bought Ledger Adjustment Account (Sundry Creditors)	11				1,753	6	8
Sold Ledger Adjustment Account (Sundry Debtors)	12	921	17	10			
Cash at Office	C.B.	5	2	6			
Cash at Bank	C.B.	551	16	5			
		£4,574	9	10	£4,574	9	10

BOUGHT LEDGER

Trial Balance, as at January 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
L. Leon	1				1,569	1	6
F. Lucien	2				184	5	2
General Ledger Adjustment Account	4	1,753	6	8			
		£1,753	6	8	£1,753	6	8

SOLD LEDGER

Trial Balance, as at January 31, 1909

		Dr.			Cr.		
		£	s.	d.	£	s.	d.
H. Browning	1	176	4	9			
J. Jones	2	224	3	8			
O. Roberts	3	432	9	5			
M. Weaver	4	89	0	0			
General Ledger Adjustment Account	5				921	17	10
		£921	17	10	£921	17	10

Tabular or Columnar Book-keeping

What is commonly known as the "Tabular" or "Columnar" system of book-keeping is not a distinctive system of accounting, indeed it cannot be designated a "system" in the same sense in which the Double Entry method is so described. The term, in this connection, merely expresses the fact that, in certain cases, books which have been ruled with many analysis columns, in order to adapt them to the special requirements of a particular business, have been substituted for the ordinary forms of Cash Books, Journals and Ledgers commonly employed. The underlying principles of "columnar" book-keeping are those of the Double Entry system, although, in order to minimize labour and concentrate items of a like nature, its customary forms are more or less abbreviated and condensed.

In cases where columnar rulings are employed in Double Entry book-keeping it does not necessarily follow that all the books in ordinary use are of a uniformly "columnar" nature; the insertion of additional columns is purely a matter of convenience and adaptability. An ordinary Cash Book may, in a given case, be used in conjunction with a "columnar" Ledger, a columnar Purchases Journal may work in unison with an ordinary form of Ledger, and so on.

Columnar Journals.—These are Journals or Day Books ruled with a greater or lesser number of additional columns to meet the needs of varying circumstances. Such additional columns may be inserted (*a*) in order to obviate the separate posting to the Ledger of each individual item, and to permit posting in totals, (*b*) to analyze transactions as between departments in order to facilitate the preparation of departmental Trading and Profit and Loss Accounts, (*c*) for the purpose of preparing Adjustment Accounts for individual Ledgers, or (*d*) to provide any additional information which may be desired.

The forms of Purchases Book, Sales Book, Returns Inwards and Outwards Books previously given on pages 59, 64 and 88 are of a columnar nature, and, subject to any additional modifications, are such as can be used in order to fulfil objects (*a*), (*b*) and (*c*) mentioned above. The forms of Bills Payable and Bills Receivable Books illustrated on page 81 are also of a columnar nature, their object being to permit the posting of Bills Payable and

PURCHASES AND EXPENSES JOURNAL

Date.	Invoice Number.	Personal Account.		Cr. Folio.	Total.			Goods Purchased.						Printing and Stationery.			Rent, Rates and Taxes.			General Expenses.			Insurance.		
		Name.	Particulars.					Plate Department.			Cutlery Department.														
1909.					£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
July 1	397	Brown, Jones & Co.	Goods, per invoice............	85	192	16	9	164	12	3	28	4	6												
,, 1	398	Borough of West Ham	Rates for half-year ending Dec. 31, 1909..	372	241	12	9										241	12	9						
,, 1	399	Morrison & Co.	Printing, per statement rendered	194	32	1	6							32	1	6									
,, 1	400	Verity & Co.	Notepaper and office sundries	195	14	2	9							12	1	6				2	1	3			
,, 1	401	Michelham, Moses & Co.	Goods, per invoice............	88	394	11	2	186	11	2	208	0	0												
,, 1	402	Aaronson & Haviland	Goods, per invoice............	89	10	4	9				10	4	9												
,, 1	403	The Northern Insurance Co., Ltd.	Burglary Insurance	195	2	6	9																2	6	9
			Carried forward		£887	16	5	£351	8	5*	£246	9	3*	£44	3	0*	£241	12	9*	£2	1	3*	£2	6	9*

* These totals are here shown as "carried forward" to the next page of the Journal. If, however, there were no further purchases made or expenses incurred during the financial period the totals would be posted respectively to the *debit* of "Purchases," "Printing and Stationery," "Rent, Rates and Taxes," "General Expenses" and "Insurance" accounts in the "Nominal," "Private" or "General" Ledger.

Bills Receivable to the Ledger in *totals*, as well as to furnish all necessary information regarding the bills.

On p. 350 is illustrated a further form of columnar Journal, which provides a classified record not only of purchases (as is the case with an ordinary Purchases Book) but also of expenses incurred. In using this Journal the postings to the credit of the personal accounts are made according to the items inserted against each name in the "total column," and at the end of any given financial period the various purchases and expenses columns are added up, the totals being then posted to the debit of the respective purchases or expense accounts in the Ledger.

Columnar Cash Books.—The form of Cash Book illustrated on page 341 in connection with the preparation of Adjustment Accounts furnishes an example of a Columnar Cash Book. The analysis columns there inserted in order to collect all the items relating to the Sold and Bought Ledgers could be equally well used as columns for the purpose of collecting items of expenditure or income in a classified form. If analysis columns are thus used in a Cash Book in order to collect expenses into totals for posting purposes, each item of expense is extended into its appropriate column in addition to being entered in the ordinary way in the "Cash" or "Bank" columns proper, and, at the close of any given period, the totals of these "expenses" columns are posted to the debit of the various expenditure accounts, thus obviating all tedious posting of details.

Analysis columns can be used on the debit side of a Cash Book for the purpose of collecting income into suitable totals for posting, in the same manner in which expenses are treated.

An example of a Columnar Cash Book is on p. 352, in which analysis columns are included for collecting various items of income and expenditure under appropriate headings for subsequent Ledger posting. In practice a larger number of analysis columns would, in all probability, be inserted on the credit side of the book in order to make the classification of the expenses more exhaustive. The form which is here shown is that designed for a dispensary supported by subscriptions and donations. It will suitably illustrate the main principles involved.

Columnar Ledgers are usually met with, in practice, in connection with personal accounts; they are not

COLUMNAR CASH BOOK (Form for use in a Dispensary)

Dr.

Donations. £	s.	d.	Subscriptions. £	s.	d.	Date.	Details.	Folio or Voucher No.	Cash. £	s.	d.	Bank. £	s.	d.
						1909.								
						Jan. 1	To Balance brought forward..........		5	9	2	102	5	9
			1	1	0	,, 1	,, J. Brown...		1	1	0			
			2	2	0	,, 1	,, H. Jones...					2	2	0
			1	1	0	,, 1	,, M. Morris..					1	1	0
0	10	0				,, 2	,, O. Roberts		0	10	0			
0	10	0	1	1	0	,, 2	,, R. James...					1	11	0
			5	5	0	,, 2	,, S. Smith...					5	5	0
2	2	0				,, 2	,, B. Brown..					2	2	0
3	2	0	10	10	0		Carried forward..........		7	0	2	114	6	9

Cr.

Date.	Details.	Folio or Voucher No.	Cash. £	s.	d.	Bank. £	s.	d.	Expenses. Drugs. £	s.	d.	Salaries and Wages. £	s.	d.	Gas, Light, Water, Rates and Taxes. £	s.	d.	General Expenses. £	s.	d.
1909.																				
Jan. 1	By Brown, Jones & Co.					6	8	9	6	8	9									
,, 1	,, J. O. Harris, M.D....					12	10	0				12	10	0						
,, 1	,, V. Michael					7	10	0				7	10	0						
,, 2	,, Midborough District Council.............					5	9	2							5	9	2			
,, 2	,, Midborough Gas Co.					1	19	6							1	19	6			
,, 2	,, Mrs. Jones (housekeeper)		3	4	1													3	4	1
,, 2	,, Mrs. Jones (wages)		1	0	0							1	0	0						
	Carried forward..........		4	4	1	33	17	5	6	8	9	21	0	0	7	8	8	3	4	1

Note.—In the above example the totals are shown as having been "carried forward"; if there were no further transactions for the period needing record in the books the totals of the "Donations" and "Subscriptions" analysis columns would be posted to the credit of accounts opened under these headings in the "Nominal" Ledger; the total of the "Expenses" columns would also be posted to the debit of their appropriate accounts in the "Nominal" Ledger.

generally suitable for the record of nominal accounts, although columnar rulings are employed in the case of some nominal accounts; for example: they will be found in the "Purchases" and "Sales" Accounts given on pages 59 and 64, which are columnar in form.

Where an undertaking is compelled, by the nature of its operations, to keep a large number of personal accounts (usually for debtors or customers) which are identical in form, and contain items of a stereotyped nature, it is possible to employ a Ledger suitably ruled in the columnar method to accord with the nature of the items needing record, and thereby to economize both time and labour. All that is necessary in order that a Ledger shall comply with the principles of Double Entry book-keeping is—

1. That the Debit items shall be grouped by themselves apart from the Credit items.
2. That the total of either class of item shall be visible, and consequently that the "balance" of the account shall be capable of being readily ascertained.

Provided that these requirements are complied with, strict adherence to the ordinary form of Ledger ruling (as given on page 31) is a matter of option and convenience.

In the ordinary form of Ledger account, debit items are ranged underneath one another on one side of the page, and credit items are similarly ranged on the other side of the page. In columnar Ledgers the debit items are frequently ranged side by side on the same line across one part of the page, the credit items being similarly ranged side by side across the other side. It is as easy to add together items ranged horizontally across a page as to add the same items ranged vertically. The making of additions horizontally is termed "cross casting," as opposed to the term "casting," which is used to designate additions made perpendicularly in the ordinary way.

When Ledger accounts can be kept on a single line across a page it will be obvious that one page can accommodate a number of accounts, and if all the Ledger accounts of a given class consist of the same number of similar items, columns can be ruled perpendicularly to separate the debit from the credit items. Many undertakings supplying commodities of special types to numerous

customers find that their Debtors' Ledger accounts fall within the description given above; for instance, in the case of a Water Company, the only debits in each consumer's account for a given period will be (1) for water supplied, (2) for any arrears brought forward, and (3) for any extra charges, such as those for excess supply or garden-hose supply; similarly, the credits will be for (1) cash received, (2) allowances made, (3) any outstanding balance carried forward.

In such a case a columnar Ledger can be employed to record the customers' accounts for a given period, the account for each consumer occupying one line across the page, the debit items being separated from the credit items. If the width of the book is sufficient the single line containing each personal account can be made to serve for two or more periods, if so desired.

A form of a Water Company's "Consumers Ledger" is given on page 355.

In the above form the account of each consumer occupies a single line, the number of the house occupied being inserted in column 7, instead of the name of the occupier, the latter not always being known to the Water Company.

Column 1 contains the debit balance brought forward from the previous period; columns 3 and 5, with their appropriate folio columns 2 and 4, contain credit postings for cash received on account of these arrears, or for allowances made in respect of them. If arrears are duly collected the total of the items in columns 3 and 5 should equal the balance brought forward in column 1; and, if any items remain uncollected when the next charge for water falls due, the amount in column 1 must be regarded, together with the items in columns 9 and 10 (see below), as falling due in the period under review.

Columns 9 and 10 contain the amounts due for supply during the period to which the account specially relates; their total is extended into column 11, and this column (coupled with any unpaid arrears in column 1) shows the total amount due from the consumer.

All cash received from the consumer is inserted in column 13, and is posted from the Cash Book; any allowances made are inserted in column 15, the total of these two columns is inserted in column 16, and, by the deduction of this latter total from the total

WATER COMPANY'S CONSUMERS LEDGER

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
(Arrears) Balance brought forward, Dec. 31, 1908.	Folio.	Cash received on account of arrears.	Folio.	Allowances made on account of arrears.	Reference Number.	Street and Number.	Rateable Value.	Half-year's Water Rate, due Jan. 1, 1909.	Excess Supply and Extras.	Total due.	Folio.	Cash received.	Folio.	Allowances made.	Total Cash and Allowances.	Balance brought forward, June 30, 1909.	The whole set of columns (except starting balance) can be repeated here for the second half of 1909.
£ s. d.		£ s. d.		£ s. d.			£	£ s. d.	£ s. d.	£ s. d.		£ s. d.		£ s. d.	£ s. d.	£ s. d.	
3 9 4	32	3 9 4			109	Laburnum Grove, 1	36	1 16 0	0 3 0	1 19 0	139	1 19 0			1 19 0		
					110	do. 2	37	1 17 0		1 17 0	142	1 16 0	32	0 1 0	1 17 0		
1 16 0	37	1 16 0			111	do. 3	36	1 16 0	0 5 0	2 1 0	142	2 1 0			2 1 0		
1 16 0	36	0 18 0	242	0 18 0	112	do. 4	36	1 16 0		1 16 0	142	0 18 0	33	0 18 0	1 16 0		
					113	do. 5	36	1 16 0	0 6 0	2 2 0						2 2 0	
					114	do. 6	38	1 18 0		1 18 0	142	1 18 0			1 18 0		
					115	do. 7	40	2 0 0		2 0 0						2 0 0	

(Here follow further Accounts, each occupying one line.)

shown as due in column 11 (with any long outstanding arrears in column 1), the balance due from each consumer at the end of the period is obtained for insertion in column 17. This balance forms the starting balance for the next period.

As regards the contra entries for the items inserted in the columns, the cash received is invariably posted from the Cash Book, and the allowances are posted from the Allowances Journal, the "Allowances" Ledger account being debited in the ordinary way.

The totals to be credited to "Water supplied" and "Excess Supply and Extras" accounts in the Ledger can be obtained by adding up columns 9 and 10 perpendicularly.

The whole of the columns should be cast at the end of the page, and all totals should agree, *i.e.* the combined totals of columns 1, 9 and 10 should equal the combined totals of columns 3, 5, 13, 15 and 17; or, alternatively, the combined totals of columns 1 and 11 should equal the combined totals of columns 3, 5, 16 and 17.

Columnar Ledgers of this type can be used with much advantage for undertakings supplying a single homogeneous commodity in bulk or by measure, *e.g.* for Gas or Electricity. Ledgers of this form are also used by Dairies (for milk, butter and eggs supplied), by Bakers (for bread supplied), and by other tradesmen dealing in similar commodities.

The other type of Columnar Ledger commonly met with proceeds upon similar lines, with the exception that the accounts contained therein are ranged vertically instead of horizontally; the detail headings being placed down the page on the extreme left-hand side instead of across it. Addition of the items in each personal account is made vertically instead of horizontally, and the credit items are placed in a section by themselves below the debit items.

This form of Ledger is commonly used by Hotels to record the accounts of their guests, the various items being too numerous to be conveniently ranged *across* the page of any book of ordinary size.

A form of an Hotel "Visitors Ledger" is on page 357.

In this form the daily debits to each visitor's account appear in the upper half of the ruling, the cash received and other items finding their due place (together with

(Hotel Visitors Ledger) **VISITORS LEDGER** Thursday, July 15, 1909

	Room No. 1 H. Hope	Room No. 2 S. Boorman	Room No. 3 B. Quinton	Room No. 4 A. Barrow	Room No. 5	Room No. 6	Room No. 7	Room No. 8	Room No. 9	Daily Total.	Folio.	
	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.		
Debits.												
Balance brought forward	1 0 0	1 10 0								2 10 0		Brought forward
Apartments	0 6 0	0 7 0	0 6 0	0 5 0						1 4 0		Apartments
Breakfast	0 1 6	0 2 0	0 2 0	0 1 6						0 7 0		Breakfast
Lunch		0 3 0								0 3 0		Lunch
Tea and Coffee												Tea and Coffee
Dinners	0 4 0	0 4 0								0 8 0		Dinners
Suppers				0 2 6						0 2 6		Suppers
Wine	0 2 0	0 6 0								0 8 0		Wines
Spirits and Liqueurs												Spirits and Liqueurs
Ale, Stout, etc.				0 0 6						0 0 6		Ale, Stout, etc.
Minerals		0 1 0	0 1 0							0 2 0		Minerals
Cigars	0 0 6	0 1 0								0 1 6		Cigars
Newspapers												Newspapers
Postage												Postage
Laundry												Laundry
Carriage												Carriage
Attendance												Attendance
Baths	0 1 0	0 1 0								0 2 0		Baths
Fires		0 1 6								0 1 6		Fires
Sundries												Sundries
Total £	1 15 0	2 16 6	0 9 0	0 9 6						5 10 0		Total
Credits.												
Cash received	1 15 0	2 16 6								4 11 6		Cash received
Allowances												Allowances
Ledger account												Ledger account
Balance carried forward			0 9 0	0 9 6						0 18 6		Balance carried forward
Total £	1 15 0	2 16 6	0 9 0	0 9 6						5 10 0		Total

NOTE.—This Ledger is written up daily, a fresh page being used for each day, and the balances being carried forward each night. The "Daily Total" column, at the extreme right, forms a posting medium, from which the necessary postings to the credit of the respective nominal accounts can be effected. The horizontal lines ruled across the "Debits" section are not for the purpose of making intermediate additions; they are merely to act as guides to the eye in posting.

the balance carried forward to the next day) in the lower part of the form. All cash received is posted from the Cash Book, any allowances that may be made are posted from the Allowances Book, and any transfers from this "Visitors Ledger" to an ordinary Customers Ledger pass through the Journal.

This form of book is restricted in use to about thirty "rooms," owing to the available space limits as regards width; in hotels containing more than this number of rooms additional Ledgers must be employed.

The advisability of adopting Tabular Ledgers depends very much upon the requirements and nature of the particular business; much depends also upon the limits of space in respect of the width or depth of the Ledger pages; it will be clear, however, that the system cannot be usefully applied unless the accounts contain items of a uniform nature.

EXERCISES.

18A.

1. Explain briefly the principles and practice of what are known as "Self-Balancing Ledgers."

2. Rule a form of Cash Book suitable for a business wherein a General Ledger, two Bought Ledgers and two Sold Ledgers are in operation, all these Ledgers being self-balancing; and enter therein six specimen transactions.

3. Rule a form of Sales Book to be used in the business mentioned in question 2, entering therein four specimen transactions.

18B.

From the following particulars of a trader's transactions prepare—

1. The "Bought Ledger";
2. The "General Ledger Adjustment Account" kept in the "Bought Ledger"; and
3. The "Bought Ledger Adjustment Account" kept in the "General" Ledger.

Showing the balances on these accounts at the 31st January, 1909.

The Bought (*i. e.* Creditors') Ledger balances as at January 1, 1909, were as follows—

		£	s.	d.
Credit balance—	A. Brown	100	19	6
,, ,,	B. Chaff	200	17	6
,, ,,	C. Dark	562	19	8
,, ,,	D. Ewart	634	12	6

The transactions needing record were as under—

1909.		£	s.	d.
Jan. 2.	Bought of A. Brown goods on credit	325	9	4
,, 3.	Paid A. Brown by cheque	300	0	0
	Being allowed discount . . .	3	0	0
,, 4.	Bought of B. Chaff goods on credit .	200	17	6
,, 5.	Returned to B. Chaff part of the goods bought from him on the 4th inst. invoiced at	15	2	9
	Being allowed by him full invoice value.			
,, 6.	Paid B. Chaff on account	350	0	0
	Being allowed discount . . .	3	10	0
,, 8.	Bought from C. Dark goods on credit	400	0	0
,, 9.	Accepted C. Dark's draft at three months' date for	800	0	0
,, 9.	Paid him by cheque	100	0	0
,, 11.	Accepted D. Ewart's draft at six months' date for	300	0	0
,, 16.	Bought from D. Ewart goods upon credit	100	0	0
,, 17.	Returned to D. Ewart the goods bought on the 18th inst., being allowed full invoice price therefor .	100	0	0
,, 21.	Paid D. Ewart by cheque	200	0	0
,, 22.	Paid A. Brown by cheque	100	0	0
,, 28.	Bought from A. Brown goods upon credit	321	19	10
,, 31.	Accepted A. Brown's draft at three months' date for	200	0	0
,, 31.	Bought from D. Ewart goods on credit	162	3	9

18c.

From the following particulars of a trader's transactions, in whose business only one "Sold" Ledger is kept, prepare—

1. The relative "Sold" Ledger Adjustment Account kept in his General Ledger.
2. The relative General Ledger Adjustment Account kept in his "Sold" Ledger, bringing down the balance on each account as at December 31, 1908.

	£	s.	d.
Total customers' debit balances, October 1, 1908	24,621	9	8
Totals of the following transactions for the period, October 1—December 31, 1908—			
(*a*) Cash received from customers . .	30,292	14	7
(*b*) Discounts allowed them	1,216	4	11
(*c*) Acceptances received from customers .	5,365	10	0
(*d*) Goods sold to customers on credit .	46,219	4	2
(*e*) Goods returned by customers . .	324	1	9
(*f*) Customers' acceptances returned by the Bank dishonoured	300	0	0
(*g*) Bad debts written off, December 31, 1908	1,214	9	6

(*Continued overleaf.*)

18C. (*continued.*)

	£	s.	d.
(*h*) Cash disbursed for carriage paid in advance on account of sundry customers (in cases where the latter defray carriage) . . .	10	2	9
(*i*) Packing and crates debited to sundry customers (where the latter bear these charges)	15	2	6

18D.

1. Explain the nature and uses of a tabular or columnar Ledger; illustrate your answer by ruling a form of tabular Ledger either (1) for an Hotel, or (2) for a Water Company, inserting therein twelve specimen transactions.

2. Explain the purposes for which columnar Cash Books and Journals are employed.

3. For what types of businesses are tabular Ledgers (1) suitable and (2) unsuitable?

Answers.—

18B. Balance of the two Adjustment Accounts, January 31, 1909, £538 6*s.* 10*d.*

18C. Balance of both accounts, December 31, 1908, £32,752 18*s.* 4*d.*

CHAPTER XIX

DEPARTMENTAL ACCOUNTS

In cases where a commercial undertaking deals in different kinds of commodities, or performs services of varying descriptions for the community, its business is usually subdivided into appropriate departments, *e.g.* a clothier's business may be divided into "Ready-made Clothing," "Hosiery," "Underwear," "Hat" and "Gloves" Departments.

This subdivision for administrative purposes is usually accompanied by a complementary subdivision of the book-keeping in order that the trading results of each department may be separately shown.

Where several departments exist in a business, it will usually be found that one set of Bought Ledgers (Creditors Ledgers) and one set of Sold Ledgers (Debtors Ledgers) are kept to contain all the creditors' and debtors' personal accounts. Each department will very possibly purchase goods from the same creditors; and it is even more usual to find that each department supplies the same customers with goods either simultaneously or upon different dates. It is highly desirable that the whole of the firm's transactions with any particular individual or firm shall be contained in one personal Ledger account, in order that the financial position at any date as regards that particular individual or firm may be readily ascertained, and for this reason the keeping of separate Bought and Sold Ledgers for individual departments is usually inadvisable.

In order, however, to show the trading results achieved by each department separately some suitable subdivision, or analysis of the accounts from which the Trading Account is built up, is necessary. The Stock on hand, Purchases and Sales, in the case of a trading business, and, in addition, the manufacturing wages and the other essential expenses of production in a manufacturing business, all require to be analyzed as between the various departments to which they relate.

Forms of analyzed Purchases, Sales, and Returns Books have already been given (see pages 59, 64, 88), wherein the principle of classification, according to departments, is effected.

As regards the direct expenses of production in a manufacturing business, the principal item, that of "wages," must be analyzed from the wages sheets, in order that the amount applicable to each department may be ascertained. The Wages Account in the Ledger must be ruled with appropriate analysis columns for each department, just as in the case of the Purchases and Sales Accounts already described.

The other direct expenses of production must be analyzed in a similar manner; the various expense accounts in the books must be ruled with analysis columns to contain the expenses chargeable to the Trading Account of each Department, or separate Ledger accounts can be opened for the departments if the subdivisions are not too numerous.

If all the accounts which contribute to the construction of the Trading Account are thus analyzed, it becomes possible to prepare separate Trading Accounts for every department, and consequently to show the gross profit made by each branch of the business.

A Trial Balance is annexed from which a Trading Account has been compiled, showing the gross profits made by each of the two departments ("Plate" and "Cutlery") of which the business consists.

It will be seen from this illustration that the Plate Department has made a gross profit of £6,503 10*s*. 1*d*., while the Cutlery Department has made a gross profit of £11,225 15*s*. 8*d*.

In some businesses the ascertainment of the gross profit on trading made by each department is a sufficient index to the manner in which that department is being conducted, and the process of analyzing the Profit and Loss Account upon similar departmental lines is not resorted to. In the majority of undertakings, however, the accurate apportionment of the net profits as between the various departments of the business is deemed advisable. In cases where it is desired to analyze the Profit and Loss Account in departmental form, it becomes necessary to apportion the various fixed and other working expenses of the business as between its constituent departments.

THE EVERWEAR PLATE & CUTLERY CO., LTD., BIRMINGHAM

TRIAL BALANCE, as on June 30, 1909

	Dr. £	Dr. s.	Dr. d.	Cr. £	Cr. s.	Cr. d.
Share Capital, 25,000 £1 shares				25,000	0	0
Freehold Land and Buildings	6,202	16	5			
Plant and Machinery (*less* Depreciation)	4,040	10	0			
Stock, July 1, 1908, Plate Dept.	1,024	9	6			
,, ,, Cutlery Dept.	2,039	15	7			
Sundry Debtors	22,000	10	2			
Purchases, raw materials, etc., Plate Dept.	17,292	10	9			
,, ,, Cutlery Dept.	20,026	14	8			
Sales, Plate Dept.				35,010	10	6
,, Cutlery Dept.				52,515	15	9
Returns Outward, Plate Dept.				821	4	3
,, ,, Cutlery Dept.				109	2	6
Manufacturing Wages, Plate Dept.	13,209	3	8			
,, ,, Cutlery Dept.	18,329	11	4			
Rent, Rates, Taxes and other Office Expenses	4,065	17	3			
Manufacturing Charges (including depreciation of Plant and Machinery), Plate Dept.	2,094	16	3			
,, ,, Cutlery Dept.	3,028	14	2			
Discount Account	594	13	6			
Bank Charges and Commissions	129	14	8			
Advertising and Catalogues	182	14	2			
Travelling Expenses and Sundries	209	10	5			
Sundry Creditors				3,216	4	9
First Mortgage, 4½ per cent. Debentures				5,000	0	0
Salaries and Travellers' Commission	4,269	15	8			
Cash at Bank	2,471	0	0			
Cash in hand	10	0	0			
£	121,172	17	9	121,172	17	9

NOTE.—The value of the Stock on hand as on June 30, 1909, was taken at—
Plate Department............£4,792 15*s.* 6*d.*
Cutlery Department.........£2,025 12*s.* 9*d.*

It is frequently a matter of some difficulty to state, with any degree of exactitude, the exact proportions of the business expenditure which relate to any given department of the undertaking, and some method of analyzing the various charges, other than their laborious dissection in detail, has usually to be evolved.

The various expenses charged in the Profit and Loss Account may be taken to represent the cost of effecting, and obtaining payment for, the sales previously set forth in the Trading or Manufacturing Account; and, in the majority of cases, it is not an unwarrantable assumption to conclude that the cost of selling the products of all departments bears an equal ratio to the amount of the sales effected by that department. This assumption may not be correct in some cases, *e.g.* where one department is so well established in public favour that it needs no further advertisement,

THE EVERWEAR PLATE & CUTLERY CO., LTD.

TRADING ACCOUNT for the Year ended June 30, 1909

Dr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
1908. July 1	To Stock on hand	1,024	9	6	2,039	15	7	3,064	5	1
1909. June 30	,, Purchases (*less* Returns)	16,971	6	6	19,917	11	9	36,888	18	3
,, 30	,, Manufacturing Wages	13,209	3	8	18,329	11	4	31,538	15	0
,, 30	,, Manufacturing Charges (including depreciation of Plant and Machinery)	2,094	16	3	3,028	14	2	5,123	10	5
,, 30	,, Gross Profit carried to the Profit and Loss Account	6,503	10	1	11,225	15	8	17,729	5	9
	£	39,803	6	0	54,541	8	6	94,344	14	6

Cr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
1909. June 30	By Sales	35,010	10	6	52,515	15	9	87,526	6	3
,, 30	,, Stock on hand	4,792	15	6	2,025	12	9	6,818	8	3
	£	39,803	6	0	54,541	8	6	94,344	14	6

PROFIT AND LOSS ACCOUNT for the Year ended June 30, 1909

Dr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
1909. June 30	To Rent, Rates, Taxes, and other Office Expenses ...	1,626	6	11	2,439	10	4	4,065	17	3
,, 30	,, Salaries and Travellers' Commission	1,707	18	3	2,561	17	5	4,269	15	8
,, 30	,, Discount	237	17	5	356	16	1	594	13	6
,, 30	,, Bank Charges and Commission......................	51	17	11	77	16	9	129	14	8
,, 30	,, Advertising and Catalogues	53	1	8	79	12	6	132	14	2
,, 30	,, Travelling Expenses and Sundries	83	16	2	125	14	3	209	10	5
,, 30	,, Net Profit carried down..	2,742	11	9	5,584	8	4	8,327	0	1
	£	6,503	10	1	11,225	15	8	17,729	5	9

Cr.

Date		Plate Department. £	s.	d.	Cutlery Department. £	s.	d.	Total. £	s.	d.
1909. June 30	By Gross Profit brought from Trading Account.....	6,503	10	1	11,225	15	8	17,729	5	9
	£	6,503	10	1	11,225	15	8	17,729	5	9
1909. June 30	By Balance brought down...	2,742	11	9	5,584	8	4	8,327	0	1

while another department, yet in its early stages, is compelled to spend large sums in this direction, but in such cases allowance for any special items of expense must be made prior to the subdivision of the expenditure generally.

Upon the assumption stated above the "Expense" items set out in the Profit and Loss Account are frequently divided as between the departments of the business according to the ratio which the totals of the sales effected by each department bear to the total sales of the whole business; *e.g.* if the sales effected by Department "A" be £20,000 and those by Department "B" be £40,000, the whole of the expenses set forth in the Profit and Loss Account would be divided and charged, as to 33⅓ per cent. of them, to the separate Profit and Loss Account for Department "A," and as to 66⅔ per cent. of them to the similar account for Department "B."

This process of the subdivision of expenses is frequently applied to the whole of the expenses of an undertaking, and will, in the majority of cases, give a result which may be regarded as being as fair an apportionment as can be conveniently arrived at. If, however, in any particular case a more reliable method of calculation can be made use of in relation to one or more special types of expenditure (*e.g.* the advertising expenditure previously mentioned), such expenses should of course be dissected separately, and duly charged to the department for which they were incurred; the spreading of the expenses over the departments upon the basis of the totals of the sales can then be applied to such other forms of expense as do not readily lend themselves to individual dissection.

A departmental Profit and Loss Account is annexed, prepared from the Trial Balance previously given as an illustration in this chapter, in which the expenses have been apportioned upon the basis of the total sales.

The organization of Departmental Accounts is a matter wherein differences of practice will be frequently found, due in most cases to the different objects for which the results are required by the proprietors of the business, or to the trading peculiarities of any given business. The foregoing remarks, however, will serve the student as a guide to the main principles involved.

In some cases separate Departmental Ledgers are kept in order to record the whole of the transactions of each

Department, including its Debtors and Creditors, the whole of the book-keeping of each department working up to an Adjustment Account in the Departmental Ledger, and in the General Ledger, each department being conducted as a business apart. This form of organization is, however, not very common, and in many cases would be so laborious that its general adoption is impracticable.

BRANCH ACCOUNTS

The official record of the financial relationships existing between the Head Office of an undertaking and its branch business or businesses, and *vice versa*, is a matter upon which considerable diversity of practice exists, the methods employed naturally varying according to the circumstances of each case. A Branch business may, in some cases, act solely as a depot for the receipt of orders which are executed direct from the Head Office, or it may act merely as a collecting agency, or occupy in other respects a subordinate position; in any of these cases it can hardly be said to trade independently, and its transactions are, in these circumstances, usually embodied periodically in the Head Office books, small sums of petty cash being entrusted to the Branch manager for the purpose of making the necessary disbursements. The only books kept at the Branch in such cases consist of a Petty Cash Book, and possibly one or more statistical registers.

In a more advanced stage of the Branch's history, independent trading may have become established, but the whole of the records may still be kept at the Head Office. In such a case the Branch is, for book-keeping purposes, regarded much in the light of a separate department of the Head Office of the undertaking, and the records kept at the Head Office will be framed upon departmental lines. A separate Branch Ledger is kept at the Head Office in cases of this description, in which all Branch transactions and Ledger Accounts, *e. g.* Purchases, Sales, Stock, Debtors, Expenses, etc., are grouped together, apart from the rest of the book-keeping; an Adjustment Account for this "Branch Ledger" is frequently kept, having its counterpart in the "Branch Ledger Adjustment Account" in the General Ledger; but inasmuch as the whole of the transactions pass through the one set of Head Office books, there can scarcely be said to be any special features in the book-

keeping involved which call for detailed explanation. The characteristics of departmental book-keeping and adjustment accounts have already been explained; and the accounts of a Branch, the whole of whose book-keeping is recorded in the Head Office books, and not at the Branch itself, are merely a form of the one, kept in a separate Ledger, coupled with the interposition of the other.

When, however, a Branch establishes itself in a position of more or less independent trading, albeit the Head Office may still supply it with all its commodities or capital, or assist it in other ways, it usually becomes necessary for the Branch to effect its own book-keeping.

In such case a separate set of books is kept at the Branch upon the Double Entry method in the ordinary way, and, except for the single Ledger account, to be explained later on, entitled "Branch Account," none of the Branch transactions appear in the Head Office books. The Head Office and the Branch will, for book-keeping purposes, regard each other in the light of ordinary debtor and creditor, the current account kept by the Head Office for the Branch in its Ledger being entitled "—— Branch Account," and the current account kept by the Branch in its Ledger for the Head Office being entitled "Head Office Account." All sums or commodities remitted or disbursed by the Head Office to or for the Branch will be debited by the former to the latter (in the "Branch" Account), and credited by the latter to the former (in the "Head Office" account), and *vice versa;* the relation so far, for book-keeping purposes, being exactly as though the Head Office and its Branch were two independent undertakings effecting frequent transactions with each other, instead of being sections of one combined concern. This relation of debtor and creditor as between the Head Office and the Branch is sometimes carried further than mere book-keeping entries. A Head Office will frequently sell and invoice to its Branch the goods wherewith the latter carries on its trading, just as it would do if it were selling them to an outside customer. It will sometimes even hold its Branch bound to remit for these goods just as would be the case with an ordinary customer, except, of course, that there can be no question of actual liability, or of any legal action to enforce it. Many of these ordinary trade customs, as between the Head Office and the Branch, are brought into operation in order to ease the task of finance at the Head Office, and to afford a more efficient check upon the Branch

manager, both as regards his finance and the results of his administration.

In a case proceeding upon the lines just indicated the Head Office concerns itself with its own book-keeping, and, except for the "Branch Account" kept by it, is not cognizant of the Branch book-keeping at all. The Branch similarly manages its own affairs, and has no cognizance of the Head Office book-keeping beyond the entries contained in its own account at the Head Office as complemented by similar entries in its own "Head Office" Ledger account.

At the end of any given trading period the Branch prepares, in its own books, a Profit and Loss Account which will show, in the usual way, a balance either of profit or loss. This balance of profit or loss is transferred from the Profit and Loss Account, not to the credit or debit of a "Capital Account" (for such an account does not exist in the Branch books), but to the credit or debit of the "Head Office" account. The making of this entry is perhaps the one respect in which the Branch books fail to resemble exactly the books of an independent business.

Concurrently the Head Office will, at the end of each trading period, duplicate in its "Branch" account the entry for Profit or Loss made by the Branch Office in the "Head Office Account," debiting the "Branch Account" with any profit made at the Branch, and crediting its own (Head Office) Profit and Loss Account with the like sum, or crediting the Branch Account with any loss the Branch may have sustained and debiting its own (Head Office) Profit and Loss Account. Any profit or loss made at the Branch is thus eliminated from the Branch books, and brought into the Head Office trading results for the period under review.

At the close of a financial period it will be necessary for the Head Office of the concern to prepare a Balance Sheet showing the position of the undertaking as a whole, and incorporating both the Trial Balance prepared by the Head Office from its own books and the separate Trial Balance prepared by the Branch from the set of books kept there.

In the Head Office Trial Balance the Branch will be shown either as a debtor or a creditor for a given balance of account. Inasmuch as every entry originated either by the Head Office or its Branch, and entered in the current account kept between them, is duplicated by the other party to the account on the opposite side of the Ledger, it must follow that for whatever sum the Head Office may

show its Branch as a debtor or creditor in its Trial Balance, for that same sum the Branch must show the Head Office as respectively creditor or debtor in its own Trial Balance; *e.g.* if in the Head Office Trial Balance the "Branch Account" appears as a debtor for £1,500, in the Branch Trial Balance the "Head Office Account" must be shown as a creditor for £1,500.

Owing to the fact that the balances of the current accounts of the Branch and Head Office coincide in this manner it is possible to construct a combined Trial Balance and Balance Sheet of the whole undertaking.

If two "agreed" Trial Balances be taken, one of which includes a certain balance (either debit or credit), while the other includes the same balance on the opposite side to that upon which it appears in the former, it is possible to eliminate this particular balance in either statement, and thereupon to combine the remaining balances in either statement into one "combined" Trial Balance, the sides of which will still agree.

Consequently, if the Trial Balance of a Branch showing the Head Office balance for a certain amount on one side of the Ledger be combined with the Trial Balance of the Head Office books (in which is shown a "Branch Account" balance for the same amount on the opposite side), a consolidated Balance Sheet of the whole concern can be prepared showing the combined position of both the Branch and the Head Office.

This principle is carried out in the example annexed, in which the combined Balance Sheet of an undertaking is prepared from the separate Trial Balances extracted from the Head Office and the Branch books.

THE BRITISH BOOT MANUFACTURING CO., LTD.

LONDON OFFICE TRIAL BALANCE, December 31, 1909

	Dr.			Cr.		
	£	*s.*	*d.*	£	*s.*	*d.*
Cash at Bank	8,294	16	2			
Stock of Goods on hand	30,761	3	4			
Sundry Debtors	32,176	19	2			
Sundry Creditors				20,766	12	4
Share Capital, 20,000 Shares of £1 each, fully paid				20,000	0	0
Debentures				40,000	0	0
Plant and Machinery	4,130	12	6			
Patents and Goodwill	5,000	0	0			
Leicester Branch Account	7,423	1	2			
London Profit and Loss Account (Balance)				2,020	0	0
	£82,786	12	4	£82,786	12	4

THE BRITISH BOOT MANUFACTURING CO., LTD.

LEICESTER BRANCH TRIAL BALANCE, December 31, 1909

	Dr. £	s.	d.	Cr. £	s.	d.
Stock of Goods on hand	3,496	12	9			
Sundry Debtors	3,592	15	7			
Leasehold Premises	1,200	0	0			
Cash at Bank	351	7	0			
London Office Account				7,423	1	2
Leicester Profit and Loss Account (Balance)				1,217	14	2
	£8,640	15	4	£8,640	15	4

THE BRITISH BOOT MANUFACTURING CO., LTD.

BALANCE SHEET, as at December 31, 1909

LIABILITIES.				£	s.	d.	ASSETS.				£	s.	d.
Share Capital—							Goodwill and Patent Rights				5,000	0	0
20,000 Shares of £1 each				20,000	0	0	Plant and Machinery				4,130	12	6
Debentures				40,000	0	0	Leasehold Premises				1,200	0	0
Sundry Creditors				20,766	12	4	Stock of Goods on hand—						
Profit and Loss Account—							London	£30,761	8	4			
London	£2,020	0	0				Leicester	3,496	12	9			
Leicester	1,217	14	2	3,237	14	2					34,257	16	1
							Sundry Debtors—						
							London	£32,176	19	2			
							Leicester	3,592	15	7			
											35,769	14	9
							Cash at Bank—						
							London	£3,294	16	2			
							Leicester	351	7	0			
											3,646	3	2
				£ 84,004	6	6					£ 84,004	6	6

NOTE.—In a Balance Sheet prepared for publication the details relating to the "London" and "Leicester" Branch balances would not be shown, only the totals given in the principal column being included. The Head Office and Branch totals have been stated separately in the above example for the sake of clearness.

In preparing the combined Balance Sheet of a firm having a Head Office and one or more Branches in the manner illustrated above, it must be borne in mind that no "agreement" of the consolidated Balance Sheet can be effected unless the Head Office and the Branches schedule each other reciprocally as debtors and creditors for like amounts. It sometimes happens that a Head Office will, on the last day of a given financial period, remit money to a Branch, debiting the Branch therewith at the moment of making the remittance; the money may not, however, reach the Branch until the next day, *i. e.* after the books

have been closed. As a consequence of transactions of this nature, it may sometimes happen that a Head Office schedules a Branch in its Trial Balance as a debtor (or creditor) for a greater sum than is acknowledged in the Trial Balance of the Branch.

The amount of the Head Office balance must, in such a case, be made to tally with the Branch balance before any preparation of a combined Balance Sheet is attempted. This can be effected in the Head Office books by transferring any remittances made to the Branch, but not received by the latter until after date of balancing, from the Branch account into a "Remittances in Transit Account"; in this way the Head Office balance will be brought into agreement with the Branch balance, and the elimination of the two equal balances is permissible when preparing a combined statement.

A Branch account and a Head Office account may differ in similar manner owing to remittances in transit, from the former to the latter, at the date of balancing.

Where a concern comprises a Head Office with more than one Branch, elimination of the equal (and opposite) Branch and Head Office accounts, when preparing a combined Balance Sheet of the whole undertaking, is effected in the manner previously described. Again, where inter-Branch accounts exist as well as accounts between the Head Office and Branches, the principle of eliminating Branch, Head Office and inter-Branch accounts (subject to them all having been brought into agreement with one another) applies, and the procedure is identical.

An example of the preparation of a combined Balance Sheet, where remittances in transit at the date of balancing have caused the Branch and Head Office reciprocal balances to differ, is appended.

PLAYER BROS., LONDON AND LINCOLN.

LONDON OFFICE TRIAL BALANCE, December 31, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	1,050	16	2			
Sundry Debtors	8,346	9	5			
Stock of Goods	3,241	9	2			
Sundry Creditors				3,848	7	1
Lincoln Branch Account	1,209	12	4			
Partners' Capital Accounts				10,000	0	0
	£13,848	7	1	£13,848	7	1

PLAYER BROS., LONDON AND LINCOLN.

LINCOLN BRANCH TRIAL BALANCE, December 31, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Cash at Bank	504	16	2			
Stock of Goods	1,507	12	9			
Sundry Creditors				1,102	16	7
London Office Account				909	12	4
	£2,012	8	11	£2,012	8	11

NOTE.—On December 31 the London office remitted to the Lincoln Branch £100 cash, which did not arrive until January 1, 1909; it also, on December 31, dispatched goods to the Lincoln Branch of the value of £200, which did not arrive until January 4. Both these items were debited by London to Lincoln on the day of dispatch, and were credited by Lincoln to London on the day of arrival.

PLAYER BROS., LONDON AND LINCOLN.

BALANCE SHEET, as at December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
Partners' Capital	10,000	0	0	Stock of Goods on hand—			
Sundry Creditors—				London......£3,241 9 2			
London £3,848 7 1				Lincoln........1,507 12 9			
Lincoln..... 1,102 16 7				In Transit.... 200 0 0			
	4,951	3	8		4,949	1	11
				Sundry Debtors	8,346	9	5
				Cash in Bank—			
				London......£1,050 16 2			
				Lincoln........ 504 16 2			
				In Transit.... 100 0 0			
					1,655	12	4
£	14,951	3	8	£	14,951	3	8

NOTE.—In preparing the above combined Balance Sheet, the "Lincoln Branch Account" in the London books (£1,209 12*s.* 4*d.*) is reduced to £909 12*s.* 4*d.* (a figure which tallies with the London Account in the Lincoln books), £200 being debited to "Goods in Transit," and £100 to "Cash in Transit" as at the date of balancing.

One other type of Branch account, proceeding upon ordinary principles but containing special features, may be mentioned in conclusion, viz. those relating to Branches where all the commodities dealt in are supplied by the Head Office, and are charged to the Branch not at cost price but *at the price at which the Branch is to sell them.*

The accounts between the Head Office and the Branch in such a case are of the ordinary character, but in the preparation of a Profit and Loss Account care must be taken to include the Stock on hand at the end of the period at *cost price*, and not at the selling price at which it has been invoiced to the Branch.

The practice of invoicing goods to a Branch at sell-

ing price affords a better check, in many cases, upon the employees, and leakage of stock is minimized. At any given date the Branch must have in hand either stock (taken at selling price), book debts, or cash to the amount of its debit in the Head Office books, and any defalcations should, under this system, become quickly apparent.

This system also greatly facilitates the process of taking stock, a procedure which is carried out at frequent intervals by the great "Multiple Shop" concerns, which almost invariably employ the practice of invoicing all goods supplied to the various Branches at selling prices.

At balancing dates, entries must be passed in the Head Office books reversing the profit previously taken credit for on the stock remaining at that date unsold in the hands of the Branches. The system as here described is specially applicable to concerns owning many retail Branches doing an almost exclusively cash business, *e.g.* tobacconists.

Foreign Currencies

In the preceding part of this chapter the principles upon which transactions between a Head Office and its Branches are recorded have been outlined. In the cases illustrated therein, however, it was assumed that the currency of the parent house and the Branch were the same in each case (*i.e.* British); it is necessary therefore to supplement the explanations given above with particulars of the method of dealing with the accounts of firms which have established branches in countries whose monetary system differs from that of the parent house.

The explanations previously given in regard to Branch accounts apply as between a home firm and its foreign Branch, subject to certain modifications arising out of currency differences. No new book-keeping principles are involved in the case of foreign Branches, and the rule as between Head Office and Branch of treating each other, for book-keeping purposes, as debtors and creditors applies with equal force. The method upon which Branch profits are brought into the Head Office books by means of a debit to the Branch account also applies in principle.

The Head Office books must, of course, be kept in sterling in order that a sterling Trial Balance may be available; and, at the same time, the Branch books must be kept in currency in order that convenient records of local trading may be forthcoming. There are thus two

sets of books kept concurrently, one at home in sterling, and the other abroad in foreign currency, and transfers of value are continually passing from the one set of books (kept in sterling) to the other set of books (kept in the local currency), or *vice versa*, through a "Branch Account" kept in the former set of books in sterling, and complemented in a "Head Office Account" kept in the local currency in the Branch books.

I. Branches with Stable Rates of Exchange

If the foreign Branch is established in a country where the rates of exchange with London are stable, the problem of dovetailing the foreign Trial Balance, the foreign profits made, and remittances between the Head Office and the foreign Branch into the Head Office books becomes a simple one. If a certain amount of the foreign currency can be uniformly taken to be the equivalent of £1 sterling, all the transactions with the foreign Branch which involve local currency can be recorded in sterling in the Head Office books upon the basis of this exchange ratio, and the "local currency" balance of the "Head Office Account" upon the Branch books, if converted into sterling at this rate, will equal the balance of the "Branch Account" kept in sterling in the Head Office books. A further consequence is that, without upsetting the agreement of the Head Office books, the Branch Trial Balance can be converted into sterling and amalgamated with the Head Office Trial Balance (eliminating, of course, the balances of the "Head Office" and "Branch" Accounts), and the profit made by the Branch, when converted into sterling at the fixed rate, can be credited to the Head Office Profit and Loss Account in the ordinary way.

This assumption is possible in the case of most European countries, the United States, and the majority of the British colonial possessions, *i. e.* in the case of countries wherein the local standard of currency is gold. In the case of countries whose standard of money is silver, and where a gold currency does not exist, the value of the local unit expressed in pounds sterling rises and falls with the price of metallic silver on the London metal market; such "fluctuating" currency therefore requires special treatment if a Branch house is established within their boundaries.

The following assumptions are usually permissible in

the case of foreign branches in the countries set out below—

France (1), Belgium (1), Switzerland (1), Italy (2), Austria (3)	25 francs (1), lire (2) or crowns (3) = £1 sterling.
United States of America and Canada	1 dollar = 49 pence.
British India . . .	15 rupees = £1 sterling.
Germany . . .	20 marks ,,
Straits Settlements .	10 dollars ,,
Mexico	10 dollars ,,
Holland	12 "gulden" ,,
Russia	10 roubles ,,
Denmark, Norway and Sweden	18½ kronen ,,

These assumed rates of exchange will rarely differ from the actual rate current at any one time by more than 2*d.* to 3*d.* in the £ sterling; for instance, the French mint par of exchange, *i. e.* the theoretical value in French money of £1 sterling, is approximately 25·22½ (*i. e.* $25\frac{45}{200}$ francs for £1 sterling), which differs to the extent of only 2¼*d.* from the rate given above, and this **Par of Exchange** is the point about which market quotations should theoretically tend to approximate. Similarly, the German par of exchange differs to the extent of approximately 4*d.* in the £ from the arbitrary rate of 20 marks to the £ given above, the Dutch rate 3*d.* in the £, and the Danish rate 1½*d.* in the £. The British India rate of 15 rupees to the £ is a very common dealing quotation, as is also the United States rate of 49*d.* per dollar.

In the case, therefore, of foreign Branches situate in any of these "**stable exchange**" countries, which keep their books in the local foreign currency, an arbitrary rate of exchange can be assumed for converting items from currency into sterling and *vice versa.*

The "Branch Account" in the Head Office Ledger should be ruled with columns for sterling and currency on either side, and all assets sent by the Branch to the Head Office, or *vice versa,* should be passed through this account in both sterling and foreign currency, the conversion being effected at the agreed "fixed" rate of exchange. In remitting cash from the Head Office to the Branch, or *vice versa,* the rate of exchange at which the remittance

is actually effected through a bank will, in all probability, differ from the rate of exchange assumed for the purposes of book-keeping records. In order to preserve the continuity of the assumed rate of exchange throughout the books, the number of dollars, francs, marks, or whatever the currency expression of the remittance may be, must be worked out in sterling at the assumed rate, and the sterling figure so arrived at is the amount which must be entered in the Branch Account in the Head Office books; the difference between this sterling figure and the sterling sum actually paid to or received from the bank should be regarded as so much incidental premium or discount, and should be carried to the "Profit (or Loss) on Exchange" Account.

An illustration of this principle may perhaps be given here with advantage. Assume that a London house with a Branch in Paris, working upon a "fixed" exchange of 25 francs to the £, remits to the latter a cheque for fcs. 25,000 bought in London from the Credit Lyonnais.

For this cheque the London house will pay, according to the rate of the day, say 25·10 (*i. e.* $25\frac{1}{10}$th francs, being the equivalent of £1), viz. £996 0*s.* 4*d.* The Head Office will not, however, debit the Paris house with £996 0*s.* 4*d.*, but with 25,000 francs at an exchange of 25, viz. £1,000, and will credit the difference between the actual cost of the francs (£996 0*s.* 4*d.*) and the assumed value at the "fixed" rate (£1,000), *i.e.* £3 19*s.* 8*d.*, to the "Profit (or Loss) on Exchange" Account kept in its own books.

Conversely, if the Paris house buys a draft for £1,000 at exchange 25·10, paying 25,100 fcs. therefor, and remits it to London, the London house must credit the Paris Branch with 25,100 fcs. and £1,004 sterling, debiting £4 to the "Profit (or Loss) on Exchange" Account and £1,000 to its bankers.

If preferred, remittances between a Head Office and its Branch instead of being entered immediately upon their occurrence in the Branch Account, may be debited or credited in sterling to a separate account, ruled with currency and sterling columns, and entitled "Remittance Account." This account can be extended into local currency at the fixed rate of exchange at the end of the trading period, and can then be transferred, in total, into the Branch Account, the total "Profit (or Loss) on Exchange" (*i. e.* the total or net difference between the transactions converted at the actual rates and the same transactions converted at the arbitrary rate) being there-

PHILADELPHIA BRANCH ACCOUNT

Dr. (Exchange, $49\frac{5}{16}d.$ per \$) Cr.

Date.	Details.	L.F.	\$	£	s.	d.	Date.	Details.	L.F.	\$	£	s.	d.
1908.							1908.						
Jan. 1	To Balance brought forward		4,866.92	1,000	0	0	Jan. 15	By Cash		19,467.68	4,000	0	0
,, 30	,, Goods		257.95	53	0	0	,, 16	,, Proceeds of securities sold		3,893.54	800	0	0
Feb. 9	,, Goods		19,467.68	4,000	0	0	,, 20	,, Returns		175.20	36	0	0
,, 17	,, Goods		10,029.71	2,060	15	10	Feb. 12	,, Cash		1,002.97	206	1	7
,, 27	,, Goods		12,035.64	2,472	19	0	,, 18	,, Cash		10,029.71	2,060	15	10
							,, 28	,, Balance carried down		12,088.80	2,483	17	5
		\$	46,657.90	£9,586	14	10			\$	46,657.90	£9,586	14	10
1908													
Mar. 1	,, Balance brought down	\$	12,088.80	£2,483	17	5							

NOTE.—The above account represents the account kept by a Head Office in its Ledger for a Branch business owned by it at Philadelphia U.S.A. The concern is one in which every transaction is converted at the fixed rate of exchange of $49\frac{5}{16}$ pence per dollar (*i.e* the approximate "mint" par of exchange).

upon transferred in one item to the "Profit (or Loss) on Exchange" Account in the Head Office books.

Where a business is working on a "fixed" rate of exchange in this manner, and remittances between the Head Office and its Branches are frequent, the "profits and losses" on exchange will frequently equalize one another approximately. If the assets carried in the Branch books are considerably in excess of the amount of the local creditors, the use of a fixed rate of exchange, which is in reality below the normal rate (*i. e.* in which the number of units of local currency taken for the fixed rate is less than in practice), may cause slight over-valuation of the excess of foreign assets over liabilities, and thus tend to slightly overstate the assets in the London Balance Sheet as a whole. Where this tendency is apparent, a reserve for loss on exchange should be built up in the London books, and for this purpose the "profits" apparent on remittances may be utilized.

A form of Ledger account containing columns for sterling and local currency, suitable to contain the record of Branch accounts and Remittance accounts is on p. 377, the entries in which are sufficiently clear without further detailed explanation.

An example of the Trial Balances appertaining (1) to the London Head Office and (2) to the Indian branch of a London firm having a branch at Calcutta is also annexed, showing the manner in which the two are amalgamated. A fixed rate of Exchange of 15 rupees to the £ has been adopted throughout the business.

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

LONDON TRIAL BALANCE, December 31, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
Share Capital—						
10,000 Shares of £1 each				10,000	0	0
Reserve Fund				1,000	0	0
Investments on account of Reserve Fund—						
£1,000 London County 3½ per cent. Stock at par	1,000	0	0			
Sundry Debtors	762	4	9			
Calcutta Branch Account	4,042	0	0			
Sundry Creditors				89	11	4
Cash at London and Westminster Bank	839	4	7			
Profit and Loss Account, balance January 1, 1908				609	10	9
Goodwill	5,000	0	0			
Loss on Exchange	5	12	9			
	£11,649	2	1	£11,649	2	1

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

CALCUTTA TRIAL BALANCE, December 31, 1908

	Balances as rendered by Calcutta Branch.		Balances as converted into sterling at fixed exchange of 15 rupees to £.					
	Rupees.	*Rupees.*	£	*s.*	*d.*	£	*s.*	*d.*
Cash at Bank of Bengal	*15,060.00*		1,004	0	0			
Stock of Goods on hand	*30,030.00*		2,002	0	0			
Sundry Debtors	*154,515.00*		10,301	0	0			
Bills Receivable	*30,900.00*		2,060	0	0			
Freehold Land and Buildings	*15,000.00*		1,000	0	0			
Plant and Machinery	*45,075.00*		3,005	0	0			
Sundry Creditors		*180,915.00*				12,061	0	0
Head Office Account		*60,630.00*				4,042	0	0
Profit and Loss Account (Balance, net profit for year)		*49,035.00*				3,269	0	0
	Rs. 290,580.00	*Rs. 290,580.00*	£19,372	0	0	£19,372	0	0

LONDON & BENGAL TRADING CO., LTD., LONDON & CALCUTTA.

BALANCE SHEET, December 31, 1908

LIABILITIES.	£	*s.*	*d.*	ASSETS.	£	*s.*	*d.*
Share Capital—				Goodwill	5,000	0	0
10,000 Shares of £1 each	10,000	0	0	Plant and Machinery	3,005	0	0
Reserve Fund	1,000	0	0	Freehold Land & Buildings	1,000	0	0
Sundry Creditors—				Stock on hand	2,002	0	0
London £39 11 4				Sundry Debtors	11,063	4	9
Calcutta £12,061 0 0				Bills Receivable	2,060	0	0
	12,100	11	4	Investment on Account of			
Profit and Loss Account—				Reserve Fund—			
Balance brought				£1,000 London County			
				3½ per cent. Consolidated			
forward £609 10 9				Stock at par	1,000	0	0
Net Profit				Cash at Bank—			
for the				London £839 4 7			
year £3,263 7 3				Calcutta £1,004 0 0			
	3,872	18	0		1,848	4	7
£	26,973	9	4	£	26,973	9	4

It has been assumed for the purposes of the foregoing explanations that the Branch assets and liabilities are contained in the currency Ledger kept at the Branch and not in the sterling Ledger kept at the Head Office. Very little reflection will show that Branch assets such as Buildings, Plant, etc., could, as far as book-keeping record is concerned, be kept just as conveniently in the Head Office books as in the Branch books. Any assets bought, or constructed and paid for, by a Branch can be written

off its books and transferred to a new account opened in the London books, by means of the "Branch Account" open between the houses; if, however, such assets are transferred to the home books columns in the home Ledger for the insertion of the local currency cost will be needed. It would be a difficult matter to keep the foreign branch debtors and creditors in the Head Office books in lieu of at the Branch, the entry of these particulars in the Head Office Ledger does not therefore arise for consideration.

Where the foreign Branch or business is not of a trading nature, and the keeping of proper local books of account is impossible owing to inefficient administration, expense, or a variety of causes, it frequently becomes necessary to keep the foreign Branch books in England. In this case they can be kept upon lines similar to those which would be adopted if they were being kept at the Branch; a branch Cash Book, Journal, and Ledger can all be kept in the local currency notwithstanding the fact that they are being kept in England, and the Trial Balance of, or the totals appearing upon, the foreign Ledger can be converted into sterling at the end of the year at the assumed rate of exchange. Where the currency balances on the Branch Ledger are thus converted into sterling at periodical intervals the use of a Ledger similar in form to that illustrated on p. 377 is necessary.

Some accountants, when keeping foreign Branch books *in extenso* in this country, prefer to convert every transaction from currency into sterling at an agreed rate of exchange; the work of such conversion is necessarily most laborious, and there is usually no valid reason why it should be undertaken, a periodical conversion of the debit and credit Ledger totals being all that is needed.

If the Trial Balance *only* of the Branch Ledger is converted the necessary labour can be still further reduced

II. Branches with Fluctuating Rates of Exchange

The book-keeping of a concern owning a Branch situate in a country where the value of the local currency expressed in the pound sterling is subject to constant fluctuations becomes less simple than is the case where the exchange is a stable one.

The general scheme of the books is identical with the system first described above as suitable for use in the

case of a Branch where the exchange is stable, except in regard to remittances as between the Head Office and the Branch, and *vice versa*, and the conversion of the Branch Trial Balance and profits at the end of the year.

In the present case, as in the former, the Branch books are kept in currency only, the Head Office being credited in currency with all sums received from it, and with the balance of profits, and being debited in currency with all the sums remitted to it. The Branch assets and liabilities are assumed for the moment to be kept in the Branch books.

The Head Office will keep a "Branch Account" in sterling in its Ledger, having memorandum columns for currency annexed, together with a "Remittance Account" containing similar columns. The use of a Remittance Account, into which remittances can be entered immediately upon their occurrence, is practically essential in the case of a fluctuating currency, though not in the case of a stable one. This account will contain the remittances for the year or other trading period, and will be closed at the end of the year by a transfer to the Branch Account.

Throughout the whole of the given period the Head Office and Branch books are run separately, though concurrently, and at the end of the year the question arises of the conversion of the Branch Trial Balance into sterling, and its subsequent amalgamation with the Head Office Sterling Trial Balance.

The Branch Trial Balance is, of course, entirely in local currency; the rate of exchange of this currency has fluctuated throughout the year, and stood at a particular figure at the end of the year.

The whole of the Branch Trial Balance requires to be converted into a sterling Trial Balance, which latter must "agree."

The Balances comprised in the Branch Trial Balance should be converted into sterling at the following different rates of exchange, the conversion being effected in the "sterling columns" annexed to the Branch Trial Balance; this will of itself produce a Trial Balance in sterling which fails to agree; the sterling Trial Balance must then be made to agree by inserting the amount of the difference on the side upon which it is needed, such difference being called the "Profit" or "Loss" upon Exchange, and treated as such.

The conversion rates are as under—

1. Convert the Fixed Assets held at the Branch (*i.e.* the assets held for use, such as Buildings and Plant) at the rates of exchange ruling when they were bought.
2. Convert the Floating Assets (*i.e.* the assets held for conversion into money, such as Cash, Book Debts, and Stock) at the rate of exchange current on the last day of the period, and convert the amount owing to the local creditors at the end of the period at the same rate.
3. Convert all Profit and Loss balances, or the balance of the Branch Profit and Loss Account, if that alone be shown, at the average rate ruling throughout the financial period.
4. Convert all remittances for the period (*i.e.* balance of the Remittance Account) at the actual rate of exchange.
5. Convert the balance of the Head Office Account at the commencement of the financial period at the rate at which it was included in the Trial Balance prepared at the end of the previous period.

The instruction (No. 1) to convert the Fixed Assets into sterling at the rates ruling at the time of their purchase means in practice that—

(*a*) The Fixed Assets bought prior to the commencement of the trading period under review are converted at the same rates as were used in the Balance Sheet made up at the end of the previous trading period.

(*b*) The Fixed Assets bought, during the trading period under review, must be converted at the average rate for the period or the rate at which any special remittance for the purpose of buying such assets was made.

The reason why the Fixed Assets are converted at the rates of exchange ruling at the time of their purchase is because they remain in the foreign country, and because their value for use, not for conversion into money, is all that concerns the Head Office.

Floating Assets and Liabilities are converted at the rate ruling on the last day of the financial period, because,

in either case, conversion into money or satisfaction in money is contemplated, and by converting at these rates the same position is shown as would arise if liquidation took place on the last day of the period.

All Profit and Loss Account balances are converted at the average rate ruling during the financial period, because they may reasonably be taken to have accrued more or less continuously throughout the period.

As has already been mentioned, upon conversion of the Trial Balance taking place, the amount necessary to make its two sides agree is inserted as Profit or Loss on exchange. The Trial Balance then becomes an "agreed" one, and the transfer of the profit to the Head Office Profit and Loss Account can take place in the ordinary way by means of a debit to the "Branch Account" in the Head Office books; the balance of the Remittance Account must also be transferred into the Head Office Account. Amalgamation of the Branch Trial Balance (in sterling) with the Head Office Trial Balance can then be effected in the ordinary way.

These principles are illustrated in the subjoined example.

A. Brown & Co., London and Rio de Janeiro.

RIO DE JANEIRO TRIAL BALANCE, Dec. 31, 1908

	Dr.	Cr.
	Milreis.	Milreis.
Freehold Land and Buildings (at Dec. 31, 1907)	250,000.000	
Freehold Land and Buildings (additions during year)	11,000.000	
Stock of Goods on hand (Dec. 31, 1908)	32,032.000	
Sundry Debtors	160,640.000	
Sundry Creditors		96,656.000
Bills Receivable	48,496.000	
Investment: Milreis 50,000, State of Amazonas Internal 5 per cent. Bonds, bought at 90	45,000.000	
Cash at London & Brazilian Bank	49,632.000	
Profit and Loss Account (balance, Dec. 31, 1908)		60,672.000
Head Office Account (balance, Dec. 31, 1907)		599,472.000
Remittance Account (£10,000 remitted to London)	160,000.000	
	Ms. 756,800.000	Ms. 756,800.000

Note.—Freehold Land and Buildings are to be converted at the rate ruling when the assets were purchased ($15\frac{1}{4}d.$ per milreis), and the additions at the average rate ruling for 1908 ($15\frac{1}{2}d.$). The rate ruling at the close of the year was $15d.$; the Investment was bought as a permanent investment and is to be treated as having been bought at a time when the rate ruling was $16d.$ The equivalent of the Head Office Account balance (Ms. 599,472.000) as shown by the London books is £37,469 12*s.* 7*d.*

From the above information prepare the Trial Balance for incorporation with that prepared from the London Books.

A. Brown & Co.

RIO DE JANEIRO TRIAL BALANCE, Dec. 31, 1908, as converted into sterling for incorporation in the London Books

Balance.	Rate at which converted.	Dr. £	Dr. s.	Dr. d.	Cr. £	Cr. s.	Cr. d.
Freehold Land and Buildings..	15¼d.	15,885	8	4			
Ditto (additions)	15¼d.	710	8	4			
Stock on hand	15d.	2,002	0	0			
Sundry Debtors	15d.	10,040	0	0			
Sundry Creditors	15d.				6,041	0	0
Bills Receivable	15d.	3,031	0	0			
Investment: Amazonas 5 per cent. Bonds Ms. 50,000, cost Ms. 45,000	16d.	3,000	0	0			
Cash at Bank	15d.	3,102	0	0			
Profit and Loss Account balance	15½d.				3,918	8	0
Head Office Account (balance, Dec. 31, 1907)	as per last accounts				37,469	12	7
Head Office Account (remittances, 1908)	15d. (actual rate)	10,000	0	0			
*Profit on Exchange					341	16	1
		£47,770	16	8	£47,770	16	8

* This item will be credited to "Profit on Exchange" and debited to the Branch Account in the Head Office books at December 31, 1908. The balance of profit shown by the above Trial Balance will be debited to the Branch Account in the Head Office books, and credited to the Head Office Profit and Loss Account in the ordinary way.

In the case of British companies whose entire income is earned abroad—a company owning and working a tobacco plantation, for example—practically the whole of the local expenditure is in Cash, and, on the other hand, the proceeds of the crop, which is sold in Europe, pass through the Head Office books only.

In such cases, even where the local currency fluctuates considerably, it is customary for a fixed rate of exchange to be adopted. The monthly expenditure upon the plantation is returned in the form of a monthly columnar "Cash Return," in which analysis columns are provided for the various headings of expenditure in which the "Crop Cost Account" ultimately appears. These sheets are entered, *in the local currency*, in a "Foreign Journal" kept in columnar form at the Head Office, and the additions of each column are carried forward from month to month until ultimately the totals for the trading period are completed. These totals, at the close of the year or other period, are converted at the fixed rate of exchange and transferred to the "Crop Cost Account."

All remittances to the plantation are posted at the fixed rate of exchange to the "Remittances Account"

in the Head Office Ledger, and the differences between such sums and the amounts actually realized abroad by the remittances, as shown by the Monthly Cash Returns, are treated as Profit or Loss upon exchange, and are duly transferred to that account in the Head Office books. The net profit or loss on exchange for the period is, at the close of the year, apportioned *pro rata* over each item appearing in the Crop Cost Account. In this way each item of expenditure bears its due proportion of the loss upon exchange, or benefits by the profit, as the case may be.

This method greatly simplifies the Head Office book-keeping, and results in a satisfactory adjustment of any currency fluctuations which may have occurred.

If the need arises the fixed rate of exchange can be adjusted from time to time should the local currency conditions seem to demand its amendment.

EXERCISES.

19A.

From the following Trial Balances, extracted respectively from the books kept at the London office and the Liverpool Branch of Brampton Bros. & Co., Ltd., prepare the combined Balance Sheet of the undertaking as at December 31, 1908.

The London office remitted £1,000 cash to the Liverpool Branch on the afternoon of December 31, 1908, through the London and United Provinces Bank; this remittance was not credited to the firm's Liverpool Branch until January 1, 1909.

The Trading and Profit and Loss Accounts have been closed prior to the preparation of the following Trial Balances, the latter consequently only show the net balance of the Profit and Loss Account in either case.

BRAMPTON BROS. & CO., LTD.

London Office Trial Balance, December 31, 1908.

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital issued, 10,000 shares of £1 each				10,000	0	0
Debentures, 4 per cent. First Mortgage				10,000	0	0
Freehold Premises	3,492	16	6			
Plant and Machinery	1,029	4	10			
Sundry Debtors	10,432	16	1			
Sundry Creditors				2,924	12	3
Cash at Bank	4,219	16	8			
Bills Receivable	2,550	0	0			
Stock on hand	4,216	19	3			
London Office Profit and Loss Account (Balance)				4,947	2	6
Liverpool Branch Account	1,930	1	5			
	£27,871	14	9	£27,871	14	9

Note.—The Authorized Capital of the Company is £20,000, divided into 20,000 shares of £1 each.

Brampton Bros. & Co., Ltd.

Liverpool Branch Trial Balance, December 31, 1908.

	Dr. £	s.	d.	Cr. £.	s.	d.
Cash at Bank	921	4	3			
Stock in hand	1,294	16	3			
Sundry Debtors	2,362	14	9			
Furniture and Fittings	104	3	6			
Bills Receivable	150	0	0			
Plant and Machinery	462	12	10			
London (Head Office) Account				930	1	5
Profit and Loss Account (profit for year 1908)				803	15	5
Sundry Creditors				3,561	14	9
	£5,295	11	7	£5,295	11	7

19B.

From the following Trial Balance prepare the Profit and Loss Account and Balance Sheet of L. Smith, a manufacturer whose business is divided into two departments, viz. "A" and "B," for the year 1908. These accounts are to be shown so as to reveal the result of the operations of each department separately as well as the combined result. The expenses appearing in the Profit and Loss Account are to be apportioned as between the two departments according to the net volume of sales for the year in each department.

	Dr. £	s.	d.	Cr. £	s.	d.
Freehold Land and Buildings	20,500	0	0			
Plant and Machinery	14,396	0	0			
Sundry Debtors	2,914	0	0			
Sundry Creditors				23,246	9	5
Manufacturing Wages, Dept. A	3,294	9	1			
,, ,, Dept. B	5,291	4	9			
Manufacturing Charges, Dept. A	2,046	14	2			
,, ,, Dept. B	3,096	4	8			
Stock on hand, Jan. 1, 1908, Dept. A	2,049	16	2			
,, ,, ,, Dept. B	5,629	14	3			
Salaries of Counting house Staff	2,249	10	0			
Rates, Taxes and Insurance	635	9	9			
General Expenses and Commissions	1,524	18	5			
Capital Account, L. Smith				30,000	0	0
Cash at Bank and in hand	10,454	7	1			
Sales, Dept. A				11,324	9	5
,, Dept. B				16,986	14	1
Purchases, Dept. A	4,396	2	1			
,, Dept. B	3,294	1	9			
Returns Outwards, Dept. B				214	19	3
	£81,772	12	2	£81,772	12	2

Note.—The value of the Stock on hand as on December 31, 1908, was as follows—

	£	s.	d.
Dept. A	3,092	17	6
Dept. B	4,924	10	9

19c.

From the subjoined Trial Balances, extracted from books kept respectively at the London and Paris offices of Reville & Co., Ltd., prepare the combined Balance Sheet of the undertaking as on December 31, 1908. A fixed rate of exchange of 25.20 francs to the £ is employed in the business.

REVILLE & Co., LTD.

London (Head Office) Trial Balance, December 31, 1908.

	Dr. £	s.	d.	Cr. £	s.	d.
Share Capital				10,000	0	0
Stock of Goods on hand (Dec. 31, 1908)	3,295	12	6			
Sundry Debtors	1,926	14	3			
Sundry Creditors				4,991	6	2
Freehold Premises	8,050	12	6			
Furniture, Fittings and Fixtures	132	9	5			
Bills Receivable	450	0	0			
Cash at Bank	456	15	11			
Cash in hand	10	9	6			
Paris Branch Account (fcs. 42,800 at 25.20)	1,698	8	3			
Profit and Loss Account (London), net profit for year 1908				1,029	16	2
	£16,021	2	4	£16,021	2	4

REVILLE & Co., LTD.

Paris Branch Trial Balance, December 31, 1908.

	Dr. Fcs.	Cr. Fcs.
Sundry Debtors	40,800.05	
Sundry Creditors		28,000.00
Stock of Goods on hand (Dec. 31, 1908)	12,500.00	
Furniture, Fittings and Fixtures	2,000.00	
Bills Receivable	4,500.00	
Cash at Bank	13,097.50	
Insurance paid in advance (proportion unexpired)	98.00	
Cash in hand	1,926.00	
London Office Account (remittances received)		42,800.00
Profit and Loss Account, balance, being net profit for the year 1908		4,121.55
	Fcs. 74,921.55	Fcs. 74,921.55

19D.

1. Explain how the Trading and Profit and Loss Accounts of an undertaking should be framed in a case where it is desired to obtain a separate figure of net profit (or loss) for the trading conducted by each separate department. How should the office salaries and other

counting house expenditure be dealt with when preparing departmental accounts?

2. Explain the relations of the Head Office of a trading undertaking with its Branch, and *vice versa*, as regards their book-keeping, in a case where the Branch is supplied with both capital and stock from the Head Office, but otherwise trades in an independent manner.

3. How should the Head Office of a trading concern record the transactions between itself and a Branch Office established in France? Show how, and from what materials, the Balance Sheet of the combined undertaking is to be prepared for publication.

4. A London firm of fancy goods manufacturers establishes a Branch at Rio de Janeiro (where the local currency takes the form of "milreis," and is liable to constant fluctuations in value). Write a detailed explanation for the use of the book-keeper in London, showing how the accounts as between London and Rio de Janeiro are to be kept and adjusted.

Answers.—

19A. Balance of Profit and Loss Account, £5,750 17*s.* 11*d.*
Balance Sheet Totals, £32,237 4*s.* 11*d.*

19B. Net Profit: Dept. A, £866 6*s.* 2*d.*; Dept. B, £2,168 19*s.* 9*d.*
Balance Sheet Totals, £56,281 15*s.* 4*d.*

19C. Profit and Loss Account, Credit Balance, £1,193 7*s.* 3*d.*
Balance Sheet Totals, £17,295 15*s.* 8*d.*

CHAPTER XX

JOINT ACCOUNTS—JOINT ADVENTURE ACCOUNTS

It frequently happens that two or more traders agree to embark together in limited co-partnership in some particular trading adventure or speculation, sharing the resulting profits between them according to their agreed interests, and mutually contributing to the expenses incurred in carrying out the undertaking. Such a transaction is called a "**Joint Adventure.**" There is, in such a case, no need of a partnership name as representing the partners in the adventure, nor does the relationship of the parties necessarily extend beyond the particular transaction contemplated. Apart from these characteristics the operation may be regarded as tantamount to a more or less restricted partnership for the special transaction which has been entered into for the mutual benefit of the parties.

The "adventure" frequently takes the form of a joint consignment of goods, but it may, of course, assume the shape of a joint speculation in stocks or shares, the chartering of a ship, a joint underwriting operation, or any other form wherein the combination of the interests concerned may be profitably employed.

Sometimes, but rarely, the matter is treated as if it were an actual partnership entered into for the special operation, a separate banking account being opened in the joint adventurers' names, and a separate set of books being kept to record the transactions. In such a case the matter resolves itself, for book-keeping purposes, into an ordinary partnership, continuing until conclusion of the venture and then liquidated. The explanations previously given as regards partnership accounts will apply, in such cases, and will regulate the book-keeping for a "joint adventure" of this type.

In the majority of cases, however, owing to the temporary nature of the partnership, it is not worth while for the sharers in the enterprise to go to the expense or trouble of keeping a separate set of books for the joint adventure. Each adventurer opens an account

in his Ledger for the undertaking, and treats the "Joint Adventure" as if it were personified; the adventure therefore becomes an ordinary debtor to him for everything disbursed upon its account; similarly, everything received by each adventurer in respect of the joint adventure is credited by him to the "Joint Adventure" Account.

Upon conclusion of the operation, the "Joint Adventure" accounts appearing in each party's Ledger are combined into one statement, showing the details of the whole transaction from start to finish. In this statement, the profit shown on the operation is divided between the partners, and each party must then debit his share of the profit to the Joint Adventure Account in his Ledger. The result of thus debiting the profits (or crediting the losses, if losses there be) in each party's books will be to show a certain debit balance upon the Joint Adventure Account in one party's books and a credit balance for the same amount in the Joint Adventure Account in the other party's books. When the adventurer whose "Joint Adventure Account" shows a credit balance pays the amount of such balance to the other adventurer the Joint Adventure Account on both party's books will close automatically.

These principles are illustrated in the subjoined example, in which the Joint Adventure Account, as it would appear upon the books of both parties, is shown, together with the combined statement prepared from, but outside, the Ledger of either party.

Herbert Wilson of London and Robert Fitch of Cape Town combined in a joint shipment of certain specified fancy goods, made by the former to the latter; profits being shared equally between them.

Pursuant to the arrangement H. Wilson bought on January 2, 1909, 10 cases of fancy goods at £24 10*s.* per case, paying cash for the same, and paying in addition—

	£	*s.*	*d.*
Railway charges to London, £1 per case . .	10	0	0
Freight to Cape Town, £2 10*s.* per case . .	25	0	0
Insurance, stamps, and sundries . . .	8	4	6

On the same day H. Wilson drew a sight draft upon R. Fitch for £100 on account of the consignment, and sold this bill to the Standard Bank of South Africa for £99 10*s.*, the discount upon which is to be borne by the adventurers jointly.

R. Fitch received delivery of the goods from the Shipping Company on January 28, 1909, and honoured H. Wilson's draft on the same day. R. Fitch made the following payments on account of the joint venture—

		£	*s.*	*d.*
February 3.	Landing and warehouse charges .	8	5	10
January 29.	Government duty . . .	15	10	10
February 4.	Stamps, postages, and sundries . .	1	4	6

R. Fitch sold the whole of the 10 cases of goods on February 2 for cash at £38 per case. On February 4 he prepared, from the entries in his own books and from the details furnished to him of H. Wilson's disbursements, a statement of the combined result of the joint venture, remitting to H. Wilson the amount due to the latter in respect of the transaction together with his share of the profit.

This remittance was made by means of a Bank Draft obtained free of charge, and the draft was cashed by H. Wilson on February 26.

Note.—Questions of interest, as between the partners in the venture, are to be disregarded.

H. Wilson's Ledger.

JOINT ACCOUNT WITH ROBERT FITCH

Dr. Cr.

1909.			£	s.	d.	1909.			£	s.	d.
Jan. 2	To Cost of 10 cases of fancy goods at £24 10s. per case	109	245	0	0	Jan. 2	By Bills Receivable— Bill drawn on account of consignment.	B.R 91	100	0	0
„ 2	„ Railway charges	325	10	0	0	Feb. 26	„ Cash received from R. Fitch..	376	221	16	8
„ 2	„ Freight	325	25	0	0						
„ 2	„ Insurance, stamps, and sundries	325	8	4	6						
„ 2	„ Discount on Bill drawn on account of consignment	325	0	10	0						
Feb. 26	„ Share of profit realized (half of £66 4s. 4d.)	J. 134	33	2	2						
		£	321	16	8			£	321	16	8

R. Fitch's Ledger.

JOINT ACCOUNT WITH H. WILSON

Dr. Cr.

1909.			£	s.	d.	1909.			£	s.	d.
Jan. 28	To Draft of H. Wilson, paid	46	100	0	0	Feb. 2	By Proceeds of 10 cases fancy goods sold	132	380	0	0
„ 29	„ Government duty on fancy goods	46	15	10	10						
Feb. 3	„ Landing and warehouse charges	47	8	5	10						
„ 4	„ Stamps, postages, and sundries	J. 246	1	4	6						
„ 4	„ Share of profit realized (half of £66 4s. 4d.)	J. 247	33	2	2						
„ 4	„ Cash, cost of Bank Draft remitted to H. Wilson	49	221	16	8						
		£	380	0	0			£	380	0	0

MESSRS. H. WILSON & R. FITCH.

JOINT VENTURE IN FANCY GOODS
(Combined Statement)

1909.			£	s.	d.	1909.			£	s.	d.
Jan. 2	To Cost of 10 cases of fancy goods at £24 10s. per case		245	0	0	Feb. 2	By Proceeds of 10 cases of fancy goods at £38 per case...		380	0	0
„ 2	„ Charges in London— Railway charges..............		10	0	0						
	Freight..........		25	0	0						
	Insurance and sundries......		8	4	6						
	Discount.......		0	10	0						
„ 29	„ Government duty at Cape Town............		15	10	10						
Feb. 3	„ Charges in Cape Town— Landing and Warehouse Charges.......		8	5	10						
„ 4	Stamps, postages, and sundries......		1	4	6						
„ 4	„ Net Profit divided— H. Wilson £33 2 2 R. Fitch....33 2 2		66	4	4						
		£	380	0	0			£	380	0	0

COST ACCOUNTS

A manufacturer frequently desires to know exactly what the goods he manufactures have cost to produce, in order that he may be able to adjust his selling price to the margin of profit he desires to make on each of the articles he produces.

In a business in which more than one commodity is dealt in no reliable information, as to the direction in which profits are being made, or losses incurred, is available in the absence of an accurate costing system.

Accurate costing not only localizes profits and losses, but in businesses where a large amount of "estimating" is necessary, an efficient system of costing is indispensable to the preparation of tenders required for contract work.

Also in trades of a highly competitive character it is of paramount importance that records, as nearly accurate as possible, shall be kept of the cost of each article, or type of article, produced. This "cost" price must

include the detailed cost of the raw material and of each successive technical process to which such material is subjected. This information, in such cases, will prove to be indispensable, not only in order that the manufacturer may be able to base his selling prices upon reliable calculations, but also that, by comparing the figures relating to successive periods, economical working of the factory or other productive undertaking may be attained.

A "**Cost Sheet**," or "**Cost Account**," is a statement showing—

(*a*) The cost of the raw material used in producing a certain article.

(*b*) The proportionate cost of the labour, power, and other accessories employed in converting the raw material into a saleable article.

(*c*) The proportionate cost of effecting a sale of the finished article and of obtaining payment for it.

The total of these three items forms the final "cost" of the article produced, and the difference between this "cost" and the selling price ultimately obtained constitutes the net profit resulting from the sale of that particular article.

An example may perhaps serve to make the matter more easy of comprehension, *e.g.* in order that a manufacturer of fenders may be in a position to offer for sale a brass fender of a particular pattern it is necessary that he shall (1) purchase the metal, (2) cast it into the form of a fender, and finish it in workmanlike manner, (3) employ a traveller to find a retailer who will buy the finished article, (4) maintain an office to attend to the dispatch of it to the retailer, and, in due course, to obtain payment for it from him.

The metal contained in a particular fender may perhaps cost 3*s.*, the labour and power employed in converting the metal into a saleable article, together with the cost of superintendence and the necessary housing for such labour, power, and materials during the process, may perhaps cost 5*s.*, making the total cost of the fender in its completed state 8*s.* In addition to this cost price there may be a commission of 6*d.* payable to the commercial traveller who disposes of the fender to a retailer, and the proportionate cost of the counting-house staff

engaged in ensuring that the fender is duly paid for may be 1*s*. The total "cost" of the fender thus amounts to 9*s*. 6*d*., therefore anything over 9*s*. 6*d*. which the manufacturer is able to obtain for the brass fender represents profit for himself. If his competitors are selling similar articles for 11*s*. each, his profit on the fender at the current price in question is 1*s*. 6*d*.; but if he desires to obtain a large share of the orders for brass fenders likely to be placed by the retail ironmongers, he may perhaps decide to forego a small portion of this possible profit of 1*s*. 6*d*. per fender, and may quote them in his price list at 10*s*. 6*d*. each; his profit per fender is then reduced to 1*s*., but, on the other hand, the probability is that the volume of his sales will increase.

It will be obvious that cost sheets must differ considerably in their composition according to the business to which they relate; any attempt at a comprehensive description of the subject is out of place in a treatise of this nature, and all that can be attempted in this chapter is a brief outline of the salient points involved.

In order to prepare a cost sheet showing the cost of the manufacture of any particular article, or of each of a batch of similar articles produced together, the following details must be obtained and conveniently grouped together, and their monetary expression must be added up in order to arrive at the required total—

1. The cost of the raw material employed.

If goods are bought specially for the manufacture of the articles in question their cost price will appear on the relative invoice; if they are taken from the general stock in hand their cost price, when originally purchased, will be available from the ordinary records.

2. The cost of carriage of the raw material to the works.

3. The cost of the labour (productive wages) used in converting the raw material into the finished articles.

This information must be sought for in the wages books of the undertaking, and the proportion applicable to any particular article must be arrived at by the dissection of the wages paid in connection with that article. In many concerns records are provided by the workmen themselves, on "**time sheets**" or cards filled in by them or by the foreman; these sheets show in detail the work upon which the men have been occupied, and such original memoranda when available will form the basis of the dissection of the wages.

The above three items of cost form what is known as the "**Prime Cost**" (or, as the Americans say, "**Flat Cost**") of the article.

4. The proportionate amount of the factory rent, power, lighting, depreciation of plant, and all other continuing charges which are applicable to the manufactured goods in question. All these "**on cost**," "**overhead**," or "**fixed**" charges are paid for by the undertaking *en bloc*, and it will be necessary, by comparing their total for a given period with the output of manufactured articles for the same period, to ascertain, as near as may be, the proportion chargeable to each given article.

5. The proportionate amount of the cost of superintendence, clerical labour, counting-house expenses, advertising, commercial travellers' commission and all other standing charges of an unproductive nature applicable to the particular article or articles, the cost of which is to be ascertained. This must be effected, as in the case of the items set out in paragraph 4, by a comparison of the total expenditure under these headings with the total output of goods for a given period, or in any other manner which may be deemed to give more correct results.

A general analysis of the price of a manufactured article ready for sale may be stated briefly as follows—

	s.	*d.*
(*a*) Material	3	8
(*b*) Labour	4	2
(*c*) Direct Expenses	2	1
Prime Cost	9	11
(*d*) Distribution Expenses and Fixed Charges	1	6
Total Cost	11	5
(*e*) Profit	3	10
Selling Price	15	3

Where single articles are specially manufactured to order, *e.g.* railway locomotives, cost accounts will be kept relating to each article manufactured, and the cost accounts themselves will take the form of separate pages of a "cost" book, sometimes called a "**Cost Ledger.**"

All the items relative to the cost of the article in question will be recorded in this Cost Ledger account until, in due course, the total cost is arrived at. The use of the term "Ledger" in this connection must not mislead the student into thinking that such a book is a book of account forming part of the system of Double Entry book-keeping, for such is not the case; a Cost Ledger is, in most cases, purely a statistical or memorandum book in which the details of the cost of manufacturing the articles dealt in by the business concerned are recorded.

When quantities or batches of articles or commodities of a like nature are produced together, cost accounts are kept in a similar manner, the various items of cost applicable to the batch or quantity being inserted in totals. The total cost of the batch or quantity is thus obtained, and the cost per article manufactured, or per unit of the commodity (*e.g.* per bicycle manufactured or per ton of coal produced), is arrived at by dividing the total cost of the whole by the number of single articles, or the number of units of the commodity contained in the batch or total quantity produced.

If, in a manufacturing concern, cost accounts are kept for every article manufactured during a given period, the total of the profits shown by the separate accounts should, if combined, equal the net profit shown by the Profit and Loss Account for the same period, and in this way some correlation can be established between the cost accounts and the ordinary financial books of account as a means of checking the accuracy of the system employed. This agreement, though possible in theory, is not always attained with much exactitude in practice, although a close approximation should always be effected between the two sets of figures.

In a concern of any magnitude the work of preparing the cost sheets is ordinarily entrusted to a separate "costing department." In such a department the cost records of past products or manufactures become of the greatest value and serve as a guide for the future, and as a basis whereon estimates can be framed for the purpose of tendering for public contracts or for private orders.

It will be obvious to the student that the successful organization of any system of cost accounts must depend very largely upon the close approximation of its methods to the lines upon which the business in which it is employed is conducted.

If the student desires to follow this subject further he is recommended to read the five volumes of the "Accountants Library" specially devoted to the subject. In these books the matter is dealt with in great detail. In the scheme of these volumes the subject of costing is divided into five heads: (1) Multiple Costs, (2) Terminal Costs, (3) Single Costs, (4) Process Costs, (5) Operating Costs. These designations are doubtless convenient for text-book purposes, but the student will not find them in general employment in the commercial world. When devising a set of cost accounts the particular needs of each business must be separately considered and catered for, and no hard-and-fast set of forms can be prescribed as suitable for every business or for any class of business, nor can any system, however perfect, claim to be of general application, even within the limits of one particular trade.

In the great majority of cases cost accounts are merely supplemental to the financial accounts, their use being confined to the supply of additional information as to the detailed cost of manufactured products.

That this subordination *always* exists, as the student is generally led to believe, is, however, an inaccurate assumption. In some businesses of importance—constructing engineers for example—the financial system and the costing system frequently run hand in hand and mutually work, either together or independently, into the final "balance."

Such systems are necessarily very elaborate, and any attempt, in this treatise, to outline the methods employed would be out of place.

It may, however, be briefly stated that, in these cases, no "Purchase" or "Expense" accounts are kept, all the purchases made or expenses incurred being analyzed and charged up to the individual contracts or processes to which they relate.

That this system is theoretically an ideal one for the requirements of some businesses there can be no doubt. As is so often the case, however, practice frequently falls short of the ideals of theory, and the system has many drawbacks, the chief of which perhaps are that—

(*a*) In order to save time and tedious research the clerical staff are apt to manipulate the analyses of the expenditure.

(*b*) The counting-house is very largely at the mercy of foremen and workmen for the analysis of

the material and time employed, and that the information supplied is often incorrect is beyond question.

A specimen form of a simple Cost Sheet applicable to a colliery is appended.

THE SOUTH WELSH UNITED COLLIERIES, LTD.

COST ACCOUNT, Fortnight ending February 27, 1909

Coal worked, 1,722 tons 10 cwt.

	Total Cost.			Cost per ton.	
	£	s.	d.	s.	*pence and decimals of a penny.*
Wages	295	17	11	3	5·23
Pitwood	20	10	8		2·86
Stores	21	1	1		2·93
Royalties	43	1	3		6·00
Rates and Taxes	14	7	1		2·00
Truck Hire	32	5	10		4·50
Commission	14	7	1		2·00
General Charges	31	0	0		4·32
Bank Charges	4	10	0		0·63
Horse Keep	22	10	0		3·13
Discounts	17	18	9		2·50
Insurance	4	2	9		0·58
Railway and Dock Tolls	129	3	9	1	6·00
Amortization of Capital Expenditure on Mine Development	43	1	3		6·00
£	693	17	5	8	0·68
Selling price in Cardiff—1,722 tons 10 cwt. at 9s. per ton f.o.b. Cardiff	775	2	6	9	0·00
Profit for fortnight	81	5	1		11·32

ROYALTY ACCOUNTS

The term "Royalty," as employed in commerce, expresses a payment, somewhat in the nature of a rent, made for the right of user in connection with certain property, such, for example, as patent or mineral rights. The "royalties" payable by the publishers of a book to an author retaining the copyright furnish a further instance, as also do those royalties payable by the vocalists who sing to the owners of the copyright of the songs.

The foregoing examples, and other royalties of a like nature, do not call for any special treatment as regards their book-keeping record; they are usually either business expenses (in the books of the payer of them) or profits (in the books of the recipient); there is, however,

one class of royalties, viz. those paid for mineral rights, which requires special explanation.

Mineral Royalties.—Many forms of royalty are calculated on the basis of the payment of a certain sum of money in respect of each occasion upon which the property involved is used, *e.g.* each instance in which patent rights are made use of, or each copy of a book or piece of music sold. Mineral royalties are almost invariably based upon the number of units of mineral extracted, a certain sum of money being payable in respect of each unit, *e.g.* a "royalty" of 6*d.* per ton on every ton of coal won from a given specified area, although in the case of mineral royalties certain additional stipulations are usually inserted in every agreement in order that an equitable arrangement between the parties may be arrived at.

The owner of an area of land which is traversed by seams of coal usually exacts, when leasing the right to win coal to a colliery lessee, a royalty of so many pence per ton upon the coal "won," *e.g.* 6*d.* per ton.

Royalties are generally based upon one or other of the undermentioned rates—

(*a*) A fixed rate per ton of coal "gotten" or "won." The coal being taken "through," *i.e.* "small" and "large" coal together.

(*b*) A fixed rate per ton won with a different scale for "large" compared with "small" coal, or with different rates for different seams.

(*c*) A rate per ton won based upon a sliding scale, which varies with the "pit mouth" price of coal.

(*d*) A fixed price per foot thickness of the seam of coal worked ("Footage").

(*e*) A fixed price per acre worked.

Frequently a small percentage upon the total output is allowed free of royalty to cover the coal consumed in running the plant and machinery employed in the colliery.

In other cases, where the coal deposits are very deep, one or two years are sometimes allowed to the lessees for development purposes before the Royalty and Mining Rent Clauses come into operation.

If the agreement between the landlord and the lessee were to go no further than the fixing of a royalty to be paid upon each ton of coal extracted, the landlord would

be entirely in the lessee's hands as regards the amount of the royalties payable; the latter could work on a restricted output or refrain from working any coal at all unless it suited his convenience, in which case the landlord would receive little or nothing in the way of royalties.

A landlord naturally desires to be able, in granting a colliery lease, to count at least upon a moderate and certain regular income, and in order to meet his requirements in this respect the custom exists of naming a round sum of money in the lease as a "**minimum rent**,"* *i.e.* a specified rent, which is payable whether the workings of the colliery, calculated on a basis of so much per ton, equal the "minimum" mentioned or not. Even if the coal area remains unworked the minimum rent is nevertheless payable.

In years of restricted output the amount by which the "minimum rent" actually paid under the lease exceeds the agreed royalty on the output (which latter would be payable if no minimum rent were stated in the lease) is commonly known as "**short workings**" (or "**shorts**"). This name is applied to the deficiency of tonnage, as well as to the monetary expression of the deficiency in terms of the royalty payable.

It frequently happens that, during the early years of the "life" of a colliery, while the mine is being opened up, the output is more or less scanty, and the minimum rent has consistently to be paid owing to the low output. As soon, however, as the development work has been successfully accomplished the colliery starts working upon a normal basis, and the output gradually rises above the point at which the minimum rent merges into a royalty on the output. In order to alleviate the hardship which might otherwise arise as regards the lessee, through the effect of the "short workings" in early years, the lease usually contains a clause to provide for what is known as the "recoupment of short workings." Such a provision usually stipulates that any "short workings" occurring in earlier years may be offset against the larger outputs of later years, subject to the proviso that a sum at least equal to the minimum rent must be paid in every year of the lease's term. The right to "recoup"

* Other local terms to express the same meaning are: Dead Rent, Annual Rent, Head Rent, Sleeping Rent, Fixed Rent, Certain Rent, etc.

"short workings" continues in many leases over the first few years only (three to five) of a colliery's existence, "short workings" occurring in later years being irrecoverable. In other mining districts the privilege extends over the whole period of the lease.

The practical working of the various provisions set forth above may be made more clear by the use of a concrete example. A colliery might be granted a lease of a coal area at a royalty of 6*d*. per ton with a minimum rent of £200 per annum, and power to recoup "short workings." The effect of this would be that if less than 8,000 tons were "won" in a given year the minimum rent of £200 a year would be payable, but that if 8,000 tons or more were worked in a given year the royalty at the rate of 6*d*. per ton upon the output would be payable.

The actual outputs for the three years following the granting of the lease mentioned above may be taken as under—

First year	3,000 tons
Second year	10,000 ,,
Third year	20,000 ,,

The royalties payable will then be as set forth below.

First year.—The minimum rent of £200 is the equivalent (at a royalty of 6*d*. per ton) of an output of 8,000 tons. In this year only 3,000 tons have been worked, the £200 minimum rent is therefore payable, and the lessee may (as a memorandum) carry forward 5,000 tons of "short workings" for subsequent recoupment, if possible, out of the results of later years.

Second year.—If there had been no provision in the lease granting the recoupment of "short workings" royalty would have become payable at the rate of 6*d*. per ton on the whole output of 10,000 tons; as, however, there are in existence some "short workings" which the lessee is permitted to "recoup," they can be made use of subject to the proviso that not less than the minimum rent of £200 per annum shall be paid. By claiming the benefit of 2,000 tons' "short workings" out of the 5,000 tons short worked in the first year, the royalty due can be reduced to the royalty on 10,000 tons less 2,000 tons, *i.e.* on 8,000 tons, which, at the rate of 6*d*. per ton, is £200. This £200 is, therefore, paid to the landlord, and the balance of "short workings," available for use in future years, is reduced to 3,000 tons.

Third year.—Similarly, if there had been no provision in the lease as regards "short workings," royalty would have become payable on the whole output of 20,000 tons; there are, however, 3,000 tons of "short workings" (see above) remaining available for recoupment. By applying these in reduction of the 20,000 tons of output for royalty purposes the royalty actually payable is reduced to that due upon 17,000 tons, viz. £425.

The principles upon which royalties and "short workings" are to be recorded in the books of a colliery lessee are as follows—

A. Since the Trading and Profit and Loss Accounts record only the product of the sale of the output for the period, the debit appearing in the former account in respect of "royalties" must represent the royalty on *actual output* for the period, whether this is above or below the minimum rent.

B. If, in any given year, the royalty based on the output is *less* than the "minimum rent" actually paid, the deficiency (*i.e.* the "short workings") should be debited to an asset account entitled "Short Workings," which account should be carried forward to future years as an asset account as long as there is a reasonable chance of the output of later years being sufficiently high to recoup the balance remaining upon the account. In cases where the year's royalty on the output is less than the minimum rent, it is the *royalty on output* which is, as set forth in paragraph A, to be debited to the Profit and Loss Account, the "short workings" being ranked as an asset for the time being.

C. If, in any given year, the royalty due upon the output *exceeds* the minimum rent, it is still the royalty on the output which is to be debited in the Profit and Loss Account, notwithstanding that by the application of previous years' "short workings" the actual payment to the landlord may be reduced below this sum.

D. When the accumulated "short workings" amount to such a sum that, by reason of the near approach of the time limit for recoupment as well

as in view of the low colliery output, there is no reasonable hope of their ever being recouped; any balance on this account must be written off to the Profit and Loss Account, and no further "short workings" should be treated as an asset unless there is a reasonable prospect of their subsequent recoupment.

The holding up of irrecoverable "short workings" as an asset presents, of course, one method by which the Balance Sheet and Profit and Loss Account of a colliery may be made to misrepresent the actual condition of affairs, and, to avoid misrepresentation, the matter must always be dealt with upon as conservative a basis as possible.

The entries necessary to record royalties and "short workings" are as under—

Case I.—*If the royalty payable on the output equals or exceeds in any given year the minimum rent stated in the lease.*

(1) *Debit* the Royalties Account (an expense account subsequently transferable to the debit of the Profit and Loss or "Working" Account) with the royalties payable, and (2) *Credit* the Personal Account of the landlord with the like sum.

The landlord's account is closed by debiting it with (*a*) the cash paid to him, and (*b*) the previous year's "short workings" (if any) reclaimed from him (see below).

Case II.—*If the minimum rent stated in the lease, and subsequently paid, exceeds the royalty at the agreed rate worked out on the actual output for the year* (*i.e.* where the minimum rent clause comes into operation to prevent the landlord suffering from a bad year's output).

(1) *Debit* the Royalties Account with the royalty due at the agreed rate worked out on the actual output.
(2) *Debit* the "Short Workings" Account with any short workings.
(3) *Credit* the landlord's Personal Account with the sum of the foregoing debits, *i.e.* with the minimum rent, and debit his account with any cash payment made to him.

The "Short Workings" Account must be regarded as an asset account until the close of the period prescribed by the lease during which the recoupment of "short workings" is permissible, provided, as has already been stated, that there is a reasonable probability of the output being sufficiently large to permit of such recoupment.

Any "short workings," the eventual recoupment of which cannot be reasonably expected, and any "short workings" occurring after the prescribed period for recoupment has expired, must at once be debited to the Profit and Loss Account.

An example illustrating the payment of Royalties and the recoupment of "short workings" is appended.

The Pontyffraith Colliery Company, Ltd., took from the Earl of Landore a lease of a coal-bearing area for a period of twenty years, from January 1, 1904, upon the terms of a royalty of 6*d*. per ton upon the output with a minimum rent of £200 per annum, and with power to recoup "short workings" over the first four years of the lease.

The annual outputs for the five years following the granting of the lease were as follows—

1904	. .	5,000 tons.
1905	. .	8,000 ,,
1906	. .	10,000 ,,
1907	. .	10,000 ,,
1908	. .	12,000 ,,

Show the Royalties, "Short Workings," and Landlord's Ledger accounts as they would appear in the books of the Colliery Company.

Dr. ROYALTIES ACCOUNT **Cr.**

			£	s.	d.				£	s.	d.
1904.						1904.					
Dec. 31	To the Earl of Landore, royalty upon the output for 1904 (5,000 tons)	J.17	125	0	0	Dec. 31	By Transfer to the Profit and Loss Account ...	J.18	125	0	0
		£	125	0	0			£	125	0	0

			£	s.	d.				£	s.	d.
1905.						1905.					
Dec. 31	To the Earl of Landore, royalty upon the output for 1905 (8,000 tons)	J.36	200	0	0	Dec. 31	By Transfer to the Profit and Loss Account ...	J.39	200	0	0
		£	200	0	0			£	200	0	0

			£	s.	d.				£	s.	d.
1906.						1906.					
Dec. 31	To the Earl of Landore, royalty upon the output for 1906 (10,000 tons)	J.42	250	0	0	Dec. 31	By Transfer to the Profit and Loss Account ...	J.44	250	0	0
		£	250	0	0			£	250	0	0

			£	s.	d.				£	s.	d.
1907.						1907.					
Dec. 31	To the Earl of Landore, royalty upon the output for 1907 (10,000 tons)	J.65	250	0	0	Dec. 31	By Transfer to the Profit and Loss Account ...	J.68	250	0	0
		£	250	0	0			£	250	0	0

			£	s.	d.				£	s.	d.
1908.						1908.					
Dec. 31	To the Earl of Landore, royalty upon the output for 1908 (12,000 tons)	J.90	300	0	0	Dec. 31	By Transfer to the Profit and Loss Account ...	J.90	300	0	0
		£	300	0	0			£	300	0	0

Dr. **EARL OF LANDORE (Landlord's Account)** Cr.

			£	s.	d.				£	s.	d.
1904.						1904.					
Dec. 31	To cash.............	49	200	0	0	Dec. 31	By Royalty	J.17	125	0	0
						,, 31	,, "Short Workings".............	J.17	75	0	0
		£	200	0	0			£	200	0	0

			£	s.	d.				£	s.	d.
1905.						1905.					
Dec. 31	To Cash	104	200	0	0	Dec. 31	By Royalty	J.36	200	0	0
		£	200	0	0			£	200	0	0

			£	s.	d.				£	s.	d.
1906.						1906.					
Dec. 31	To "Short Workings" recouped	J.42	50	0	0	Dec. 31	By Royalty........	J.42	250	0	0
,, 31	,, Cash............	157	200	0	0						
		£	250	0	0			£	250	0	0

			£	s.	d.				£	s.	d.
1907.						1907.					
Dec. 31	To "Short Workings" recouped	J.65	25	0	0	Dec. 31	By Royalty........	J.65	250	0	0
,, 31	,, Cash............	192	225	0	0						
		£	250	0	0			£	250	0	0

EARL OF LANDORE (Landlord's Account) *continued.*

			£	s.	d.				£	s.	d.
1908.						1908.					
Dec. 31	To Cash	314	300	0	0	Dec. 31	By Royalty........	J.90	300	0	0
		£	300	0	0			£	300	0	0

Dr. **"SHORT WORKINGS"** Cr.

			£	s.	d.				£	s.	d.
1904.						1904.					
Dec. 31	To the Earl of Landore("Short Workings" for 1904)................	J.17	75	0	0	Dec. 31	By Balance carried down.........	✓	75	0	0
		£	75	0	0			£	75	0	0

			£	s.	d.				£	s.	d.
1905.						1906.					
Jan. 1	To Balance brought down...	✓	75	0	0	Dec. 31	By Transfer to the Earl of Landore ("Short Workings" recouped)	J.42	50	0	0
						" 31	" Balance carried down.........	✓	25	0	0
		£	75	0	0			£	75	0	0

			£	s.	d.				£	s.	d.
1907.						1907.					
Jan. 1	To Balance brought down...	✓	25	0	0	Dec. 31	By the Earl of Landore("Short Workings" recouped)............	J.65	25	0	0
		£	25	0	0			£	25	0	0

THE "DOUBLE ACCOUNT SYSTEM"

It has already been stated in this treatise that the method of presenting accounts which is known as the "Double Account System" is not a system of accounting in the same sense that book-keeping by Double Entry is. It is merely a special method of preparing a Balance Sheet in accordance with the lines laid down for certain kinds of Companies under the regulations of various Acts of Parliament. The student has already been warned (page 211) that he must not confound "Book-keeping by Single Entry" with that system of preparing a Balance Sheet which is known as the "Single Account" method, and experience shows that it is also necessary to warn him against a similar confusion of terms in those cases where the words "Double Entry" or "Account" are employed in expressing the method of book-keeping, or the principles

upon which a Balance Sheet has been prepared. Beyond the fact that Balance Sheets prepared either in the form of a "single account" or in that of a "double account" necessitate an efficient method of recording the transactions which they finally embody, there is no relation whatever between Double or Single Entry book-keeping, and the "Double" or "Single Account" systems of preparing Balance Sheets. Book-keeping by Double Entry is, of course, the only method of book-keeping under which a reliable Balance Sheet of either type can be constructed.

A Balance Sheet prepared upon the principles of the "Double Account System" proceeds upon the lines of demarcation drawn between what are known as the "Fixed" Assets and the "Floating" Assets of an undertaking, together with a similar distinction between its various liabilities. It is therefore necessary to reiterate briefly the significance of these terms before proceeding to describe the system itself.

Of the Assets owned by an undertaking at any given point of time, some will be found to have been acquired for the purpose of being used in the conduct of the business; the remainder, on the other hand, will be found to consist either of money itself or of assets held for the purpose of being converted into money at a subsequent date. The former class is known by the generic name of "**Fixed**" **Assets**, while the term "**Floating**" **Assets** is applied to the latter.

For example, the permanent way, embankments, bridges, stations, and rolling stock belonging to a Railway Company are typical Fixed Assets; such property has been acquired by the Company owning it solely for permanent use and not for subsequent conversion into money. On the other hand, the outstanding book debts due to a Railway Company, any temporary investments it may hold, and any stock of stores remaining on hand for future consumption, are all Floating Assets, inasmuch as conversion into money, either directly or indirectly, at an early date is the object for which such assets are held.

It will be obvious that, since it is the *purpose* for which the assets are held that determines to which of the above two classes they belong, and not the *nature* of the property itself, a particular asset may be a Fixed Asset in one business and a Floating Asset in another, *e.g.* a gas-engine, bought for use in a boot factory, is a

Fixed Asset from the point of view of the owner of the factory. The same engine would, however, have been a Floating Asset as long as it remained part of the unsold stock of a manufacturing engineer whose business it was to make and supply gas-engines.

In some instances an asset held by a given undertaking may appear, at first sight, to partake of the characteristics both of Fixed and Floating Assets, *e.g.* a piece of property acquired for subsequent sale if opportunity offers, but which is employed in the business in the mean time. In such cases, however, it will usually be possible to discern a greater degree of intention in one direction or the other, as between these two purposes; and, according to the direction in which the excess of intention inclines, the class to which the asset is to be relegated is determined.

The Fixed Assets of an ordinary type of undertaking, being the equipment with which it fulfils its appropriate functions, will ordinarily constitute the greater part of the property owned; *e.g.* the cost of the lines and rolling stock employed by a Railway Company will usually far exceed any funds the company may hold in the shape of Floating Assets; moreover, the acquisition or construction of the properties held by an undertaking as Fixed Assets, will ordinarily represent the principal purpose for which its issues of stock, shares, permanent debentures or other forms of capital indebtedness have been made. It is, of course, necessary that, in the formation of a company, some allowance for a margin of "working capital" (*i.e.* capital held in a liquid or floating form) shall be made in estimating the amount of capital which must be sought for from the public, but the amount so held is ordinarily of small proportions as compared with the larger sums needed to construct and equip the concern from an operating point of view.

It was doubtless for the purpose of showing clearly what portion of the capital raised (including in the term "capital" any funds obtained by the issue of debentures or other forms of indebtedness of a permanent character) has been expended in the construction or acquisition of Fixed Assets, and what portion of such capital remains unexpended at any particular date, that the twofold nature of a Balance Sheet prepared according to the "Double Account System" was originally conceived, and rendered compulsory in the case of certain companies

appealing for powers to construct and equip various classes of undertakings.

The dominating idea in framing the prescribed form of these accounts doubtless was, that in cases where parliamentary sanction had been granted for raising and expending capital for certain specified purposes it was of paramount importance that the accounts should be so framed that the extent and direction of all capital expenditure should be clearly shown, and its exclusive use for the particular purpose for which its issue was sanctioned conveniently traceable.

In the case of an undertaking preparing its Balance Sheet according to "Double Account methods," two sections of the Balance Sheet are shown, instead of one, as is the case under the ordinary "Single Account System." In the first of these two sections the balances appertaining to the capital issued, and to the part of it sunk in Fixed Assets, are shown, together with the balance of the capital which has not yet been expended in these directions—the latter amount being the difference between the two former items. In the second section of the Balance Sheet are shown, on the one side, the balance of capital brought from the first section, together with the current and all other Liabilities of the undertaking, and, on the other side, all the Floating Assets held by the concern. The first statement thus shows the Capital and the Fixed Assets of the concern, while the second statement contains the Floating Assets and Liabilities, the balance of the capital, as set forth in the first statement, being brought forward into the second section of the account. This "balance of capital" represents the amount of capital retained in liquid form, *i. e.* not locked up in fixed assets.

Occasionally it may happen that a Company has locked up, in the form of Fixed Assets, slightly more than the amount of the capital it has raised. It can, of course, only do this, as a matter of finance, either by utilizing any reserve funds it may possess, or by running into debt.

In such a case the first section of the Balance Sheet will show, on the debit side, the sum sunk in acquiring the Fixed Assets, and, upon the credit side, the amount of capital raised, together with the balance necessary to make the two sides agree. This balance represents the amount of capital overspent, which therefore appears as a Liability in the first section of the Balance Sheet, and

as an Asset in the second section, and can only be eliminated by means of a further issue of capital by the concern.

Forms of Balance Sheets prepared according to the "Double Account System" will be found in Chapter XXI, pages 441, 442, and will serve to illustrate the principles set forth below.

The "Double Account System" is of comparatively recent origin, and is of purely statutory derivation.* The system is compulsorily applied to many semi-public undertakings, the works constructed by which are deemed to be of a permanent nature, *e.g.*, railways, gas-works, water, and electric lighting companies. The accounts of such corporations show, perhaps with unnecessary elaboration, the various amounts of capital expended in past years in acquiring Fixed Assets and in other directions. It may however be doubted whether the division of the Balance Sheet into two sections serves any useful purpose which would not have been attained under the methods more generally employed in commercial circles.

The Balance Sheets of railways and other undertakings which, in this country, employ the "Double Account System" are efficiently prepared upon the ordinary "Single Account System" in the United States of America, and in almost all other countries, and, in the opinion of many accountants, there is no self-evident necessity for the adoption of the "Double Account System" by undertakings of this nature.

The concerns in which the "Double Account System" is applied were, when the system was originally prescribed, deemed to be *permanent* undertakings; it was therefore considered that, provided they always maintained an equivalent equipment to that with which they started, provision for depreciation was unnecessary. The obligation to maintain this "Equivalent Equipment" took the form of throwing upon the undertaking the responsibility of executing, out of current profits, all the repairs necessary to maintain the equipment in efficient working order, and also of replacing, out of current profits, any equipment which, owing to age or obsolescence, was no longer of service. Provided this course was pursued no provision for depreciation was held to be necessary, and the capital originally expended in acquiring the Fixed Assets of the

* The system was first prescribed under the Regulation of Railways Act, 1868.

undertaking was to be allowed to remain permanently unchanged in its accounts.

Any enlargement of the equipment, increase in the number of engines or rolling stock (in the case of a Railway Company), extension of works or other additional capital outlay from time to time, are added to the original capital expenditure; and, subject to the abovementioned obligation upon the Company to "maintain" its equipment out of current revenue, such expenditure stands in the Company's books at its original cost for ever.

In the opinion of some accountants this system of accounting presents many defects, the chief of which may be briefly stated as follows—

1. During the earlier years of the undertaking, when the equipment is new and the expenditure upon repairs is correspondingly small, and that upon replacements is non-existent, the current profits are relieved of charges for depreciation which, strictly speaking, they should bear; the divisible profits are therefore overstated, and their subsequent division "up to the hilt" not only constitutes an excessive payment of dividends, but impoverishes the undertaking, and inflates the market price of the shares above their true value.
2. In later years repairs and replacements fall heavily upon the undertaking which has no reserved profits to fall back upon; current dividends are therefore trenched upon and the price of the shares falls correspondingly. Thus no equilibrium is maintained between the early years and later years.
3. Capital sunk in constructing lines, stations or other objects embraced in the original project but subsequently abandoned remains in the Company's Balance Sheet at its original amount; whereas, under the "Single Account System," the cost of these moribund assets would probably be written off.
4. Legal and other charges expended in obtaining the passing of special Acts of Parliament on the Company's behalf are, under the "Double Account System," capable of being capitalized and treated for ever as an asset, whereas in an ordinary Company they would be treated as

"Preliminary Expenses" and written off over a period of years.

5. It is unsound to maintain that, because all replacements are borne by revenue, no further provision for wasting assets is necessary. For example, a Railway Company opens its system with 500 locomotives and, in due course, replaces 20 of them, out of revenue, with engines of a better and more costly type. So far as these 20 new engines are concerned well and good, but there are still the 480 old engines in connection with which wastage in value has undoubtedly taken place, but is ignored under the "Double Account System."

It will be obvious to the student that there is much to be said for some of these criticisms of the "Double Account System," though space forbids their discussion at length in this place.

It is well, however, to remember that, in many cases, Companies working under the "Double Account System" recognize the existence of wastage over and above that which is adequately met by replacements out of Revenue, and, in such cases, special Depreciation Funds are created.

Gas and Electric Lighting undertakings frequently raise depreciation funds in order to provide for the renewal of costly assets such as leasehold works, machinery and plant, etc.

As has been already indicated, many Companies, notably British Railways, do not interpret the "Double Account System" too literally, and often charge replacements very generously to Revenue when old or obsolete assets are being replaced; and, in many ways, reserves and provisions are created out of Revenue although their existence may not be separately disclosed in the published accounts of the Company.

It has already been explained that the Balance Sheets of Railway Companies are compulsorily prepared in the United Kingdom upon the "Double Account System," whereas in the majority of other countries the "Single Account System" is adopted. An example, in condensed form, of a "Single Account" Balance Sheet issued by an American railroad is appended. The form of this statement may be usefully compared with the more cumbersome English form illustrated on pages 441, 442.

CHICAGO, INDIANA AND SOUTHERN RAILWAY COMPANY (U.S.A.)

CONDENSED GENERAL BALANCE SHEET, December 31, 1908

ASSETS.	$	LIABILITIES.		$
Cost of Road and Equipment	41,003,039.38	Capital Stock—		
Fuel and Supplies	432,074.65	Common	15,000,000.00	
Current Assets—		Preferred	5,000,000.00	
Cash in hands of Treasurer, remittances in transit and sundry debtors	1,556,852.97			20,000,000.00
		Funded Debt—		
		First Mortgage Bonds	4,850,000.00	
		Fifty-year 4 per cent. Gold Bonds	15,150,000.00	
				20,000,000.00
		Current Liabilities—		
		Bills Payable, accounts outstanding and sundry creditors		2,951,481.89
		Profit and Loss Account—		
		Balance		40,535.11
$	42,991,967.00	$		42,991,967.00

NOTE.—It will be seen that the Liabilities and Assets in this Balance Sheet appear on the opposite sides to those upon which they would appear according to British practice.

GOODWILL

Some reference has already been made to the subject of Goodwill in its relation to Partnership and Joint Stock Company accounts upon pages 234 and 257 respectively; there are, however, certain points connected with this important subject which have not been considered previously in this treatise, to which, therefore, some brief reference is needful.

Goodwill has, as was previously mentioned, been defined as "the benefit arising from connection and reputation," and although it is neither a tangible asset nor one which is capable, under ordinary circumstances, of ready realization, it is none the less a real and, in many cases, a most valuable type of property.

Goodwill is fully recognized as a transferable asset by the law, and agreements for its sale or conveyance are subject to *ad valorem* stamp duty.

The value of the Goodwill attached to a given business is obviously dependent upon the nature of the undertaking, and upon the circumstances connected with it. For the purposes of sale the Goodwill of a business is usually estimated as being worth a given number of years' purchase of the annual profits which may be expected to be derived from its possession; such future profits are usually estimated upon the basis of the average profits which have accrued during the last few years' trading immediately prior to the date upon which the sale takes

place. The average of profits to be employed for the purposes of valuing a "Goodwill" should be based upon the results of a sufficient number of years to give a fair estimate of future results, and in arriving at such average any special profits or losses due to extraneous circumstances should be disregarded. The average of the previous three to five years' results is usually employed in arriving at the value of Goodwill in ordinary commercial undertakings.

The number of years' purchase of these ascertained "average" profits to be taken in any given instance is naturally a matter which is subject to great variation according to circumstances. The Goodwill of a professional business, in the successful conduct of which the personality of the previous owner is of paramount importance, and which can only be transferred to a new owner with the probability of considerable loss of *clientèle*, may, in a given instance, only be worth from one to three years' purchase of the average profits previously derived from its possession; on the other hand, the Goodwill of a trading business showing average profits of a similar amount may be worth a much larger proportionate sum. This difference in value would be due to the less exclusively "personal" nature of the latter business as compared with the former. In fact, in many commercial undertakings the personal factor is practically non-existent in connection with the Goodwill, which may be largely a question of locality or of reputation for the quality of merchandise sold. In an ordinary case the Goodwill of a professional business may be taken to be worth from one to three years' purchase of the average past profits, and the value of the Goodwill of a trading business will ordinarily be worth from two to five years' purchase of similar average past profits. If a share only of the Goodwill is being disposed of, in cases where the previous partners, or some of them, continue to be associated with the undertaking, a greater number of years' purchase of the average profits will in many cases be obtainable by the vendors.

Again, where the average of the results of past years is based upon a series of descending profits, *i.e.* where the profits have in the past been steadily on the down grade, the Goodwill will obviously be worth less than where exactly the same average is shown by a series of ascending profits, *i.e.* where the business shows a sequence of

profits which are on the up-grade, each year showing a better result than its predecessor.

The personality of the intending purchaser of a Goodwill is an important factor in relation to the price to be paid for its possession; the approximate number of years' purchase stated above, viz. one to three years in the case of a professional business and two to five years in the case of a trading business, will usually apply when the intending purchaser is a private trader on his own account. If, on the other hand, the Goodwill of a trading business is to be sold to a Limited Company formed for the special purpose of acquiring it, the purchase price will frequently be considerably more than if it were being disposed of to a sole trader. This enhanced price arises out of the interposition of vendors' or promoters' profits in the case of a Company, and is rendered possible by the fact that the shareholder with limited liability in a Joint Stock Company will usually be content with a smaller rate of interest per cent. per annum upon his money than would be required by a purchaser trading upon his own account with unlimited liability. A Joint Stock Company can usually be more heavily capitalized in a similar business than a private partnership, and yet be in a position to satisfy its shareholders in point of income. If at a subsequent date a company of this nature fails to succeed the loss of capital to the ordinary shareholders is, of course, correspondingly large. The ordinary shares of many large companies are practically represented entirely by the purchase price of the "Goodwill," and in view of the excessive prices which the constitution of a Joint Stock Company allows to be placed upon this asset, and of its worthlessness should the undertaking fail to succeed, the capitalist who cannot afford to lose the principal, represented by his investment, should studiously eschew the *ordinary* or *deferred* shares of those industrial companies where the amount paid for the Goodwill of the business forms the principal part of the purchase price.

Upon the failure of a trading concern, its "Goodwill" obviously becomes a valueless asset; and in like manner when the profits of an undertaking decrease during its course of trading, so the value placed upon its Goodwill should in theory diminish also. The question as to whether the purchase price paid by an undertaking for its Goodwill should be depreciated has been the subject of much controversy among accountants, but in actual

practice the original cost of the asset is rarely written down. In periods of depression, when the Goodwill has fallen in value, Directors of Companies usually object to throwing any additional burden upon the Profit and Loss Account in order to meet such depreciation, and it is only in prosperous years, when profits are abundant and the Goodwill presumably of corresponding value, that any depreciation of the asset is met with; in such years lump sums are sometimes written off Goodwill Account, from a laudable desire to eliminate an intangible asset from the Balance Sheet, or to reduce the profits available for distribution in order to conserve the financial resources of the Company in view of possible times of stringency in future years.

Goodwill is a fixed asset, and no attempt to record fluctuations in its value can be made; neither, it would appear, even where known depreciation exists, is there any legal obligation to reduce its book value prior to the payment of dividends (*Wilmer* v. *M'Namara*). The asset should be stated in the Balance Sheet *at cost*, and such statement is not intended to convey any guarantee that its present worth is fairly represented by the amount at which it appears.

As pointed out above, however, the Directors of a Company may wisely decide to enhance the financial strength of the undertaking by reducing the book value of the Goodwill. In such circumstances some accountants are of opinion that the same end can be more advantageously attained by creating a Reserve Fund.

In any case, where a reduction of the book value of Goodwill has been decided upon the amounts written off are not in any sense charges against revenue, but should take the form of appropriations of profits, and should therefore appear in the appropriation section of the Profit and Loss Account.

Bankruptcy and "Deeds of Arrangement"

When the affairs of a trader or a partnership become financially involved, and further trading is impossible, it becomes necessary for his or their property to be realized and distributed *pro rata* among the creditors. A trader who is unquestionably insolvent (taking that word in the sense that he is unable to pay his debts as they fall due) cannot continue business in this condition for any extended period of time, although by an adroit system of "financing" his liabilities an unscrupulous trader

may postpone a crisis for months or even years after the period at which he first becomes insolvent. By the postponement of the accounts of such creditors who do not urgently press for payment; by incurring a series of fresh obligations to trade creditors with whom he has not previously dealt, and who, to secure a new customer, will often give extended terms of credit; by means of "Accommodation Bills"; by mortgaging and re-mortgaging all his available property; by overdrawing his bank account, if that be possible, and by a multiplicity of other questionable devices, the insolvent owner of an unprofitable business frequently trades in a steadily increasing condition of insolvency for a considerable period. The process is one, however, which cannot continue for an indefinite time. The patience of creditors at length becomes exhausted, and either of his own motion or by compulsion the trader is compelled finally to proceed into "bankruptcy" or to make a "private arrangement" with his creditors.

"**Bankruptcy**" infers the winding up of a debtor's estate according to the manner prescribed by law,* the distribution of the proceeds of such estate *pro rata* among the creditors, and, ultimately, the freeing of the debtor, by operation of law, from any further claim in respect to the unsatisfied portion of his indebtedness to his creditors.

A "**Bankruptcy Petition**" can be presented to a Bankruptcy Court either by a creditor (for over £50) or by the debtor himself. The petition is heard by a "Registrar" of the High Court of Justice or of the County Court, if such be resorted to, and a "**Receiving Order**" can be made upon it. A "Receiving Order" removes the debtor's property from his own custody and places it in the hands of an officer of the Court termed an "**Official Receiver**." Upon a Receiving Order being made the Official Receiver to whom the case is assigned calls a **First meeting of creditors**; this meeting may resolve that the Court shall be applied to, to adjudge the debtor a bankrupt, or, on the other hand, the meeting may entertain a private scheme for the gradual liquidation of the debtor's indebtedness. Upon "**Adjudication**" of bankruptcy the debtor becomes a **Bankrupt**, and the ownership of all his property passes automatically from him to a "**Trustee**," who is, in the first instance, the Official Receiver, and subsequently some person appointed by the

* The Bankruptcy Acts, 1883–90.

creditors. Soon after adjudication the bankrupt must attend a **Public Examination,** *i.e.* an examination before the Court as to his affairs, and he may thereafter apply for his "**Discharge.**" An order of "discharge" is, as far as the bankrupt is concerned, the conclusion of his financial *débâcle;* it frees him from any further claims with reference to his debts, and permits him to start in business afresh with a clean sheet.

The Trustee as soon as possible after his appointment realizes the debtor's estate, or so much of it as is capable of realization. Out of the first funds available the **Preferential creditors,** *i.e.* certain creditors having priority for rates and taxes, wages and salaries, are paid in full, and the rest of the funds are then distributed equally among the creditors in proportion to their claims.

The creditors may, at their "first meeting," appoint some person approved by them (usually a professional accountant) to be the Trustee, or they may leave the matter in the hands of the Official Receiver, who will then act as Trustee; the creditors may at the same time appoint some of their number to act as a **Committee of Inspection,** which holds periodical meetings and supervises the liquidation of the debtor's affairs.

A debtor, upon the making of a Receiving Order against him, must submit to the Official Receiver who is in charge of the case a "**Statement of Affairs**" in the prescribed form. This statement is in the form of a summary of the debtor's financial position, prepared with a view to its immediate realization. "Statements of Affairs" are prepared not only in bankruptcy cases, but also in cases of the compulsory winding up of Joint Stock Companies by order of the Court (where, again, an official form is prescribed), and in almost all cases of financial embarrassment. The statement sets forth on the one side the debtor's property, ranged according to its nature, and valued not, as in a Balance Sheet, upon a basis of book figures or as the property of a going concern, but at realization or "break-up" figures; on the other side of the statement the debtor's liabilities are set out. As has been previously indicated, a Statement of Affairs obviously differs greatly from a Balance Sheet prepared for a going concern; and in its preparation all fictitious or wholly unrealizable assets must be excluded.

The Official Statement of Affairs in bankruptcy consists of the following forms—

1. A statement in summary form showing the property owned by the debtor (valued as above set forth), the creditors' claims, and the amount of the "**deficiency**," *i. e.* the amount by which the debtor is insolvent.
2. Schedules explaining the various classes of assets and liabilities brought (in totals) into the statement mentioned above.
3. A **Deficiency Account**, which is in effect a transcript, with the sides reversed, of the bankrupt's Capital Account in his own Ledger, showing the capital he possessed (or the amount by which he was insolvent) at a given date prior to the bankruptcy, his gains since that time and the losses which have reduced him to insolvency.

Statements of Affairs prepared at the commencement of the compulsory liquidation of Joint Stock Companies resemble those prescribed in bankruptcy, subject, of course, to the various modifications necessary owing to the constitution of the Company.

An example illustrating the preparation of a Statement of Affairs in bankruptcy (the "Summary portion" contained on the "front sheet") and the relative "Deficiency Account" is appended. In the illustration the "schedules" have not been included, as they are merely lists explanatory of the items included in the "summary," and would occupy too much space to set out in detail.

Example.—From the following information prepare the Statement of Affairs and Deficiency Account of "A. Debtor," against whom a Receiving Order was made on January 1, 1909.

The total creditors amounted to £17,650, of which £500 is "fully secured" by a deposit of securities expected to realize £550; £1,000 is "partly secured" by a deposit of Stocks expected to realize £500; £1,000 represents a liability as indorser upon an Accommodation Bill expected to rank for the full amount, and £100 is rent for which the landlord can distrain, the remainder of the creditors are unsecured.

His assets are—Furniture, £10; Cash in hand, £1; Cash at Bank, 5*s.* 6*d.*; Investment, 50,000 fully paid £1 shares in the Ephemeral Gold Reduction Company, Ltd., valued at £1,000. Book debts—Good, £50; Bad, £4,000; Doubtful, £5,000 (the latter are expected to realize £1,000).

A. Debtor's capital on January 1, 1906, was £10,065, and his income since that date has been £1,350 10*s.* 9*d.*

He has, since January 1, 1906, spent £8,056 10*s.* on household expenses, £3,897 15*s.* 3*d.* in losses on Stock Exchange speculations, £6,000 on losses through betting, and has sustained further losses owing to bad debts to the extent of £8,000.

THE BANKRUPTCY ACTS, 1883 AND 1890.

STATEMENT OF AFFAIRS

In the * High Court of Justice

In Bankruptcy

Re A. DEBTOR.

No. 90001 of 1909.

TO THE DEBTOR.—You are required to fill up carefully and accurately this Sheet, and the several Sheets A, B, C, D, E, F, G, H, I, J, and K, showing the state of your affairs on the day on which the Receiving Order was made against you, viz. the 1st day of January, 1909.

Such Sheets, when filled up, will constitute your Statement of Affairs, and must be verified by Oath or Declaration.

Gross Liabilities. £	s.	d.	LIABILITIES (as stated and estimated by debtor).	£	s.	d.	Expected to rank. £	s.	d.
15,050	0	0	Unsecured Creditors, as per list (A).............				15,050	0	0
500	0	0	Creditors fully secured, as per list	500	0	0			
			(B) Estimated value of securities.	550	0	0			
			Surplus	50	0	0			
			Less amount thereof carried to Sheet C...........................						
			Balance thereof to contra..........	50	0	0			
1,000	0	0	Creditors partly secured, as per list (C)	1,000	0	0			
			Less estimated value of securities	500	0	0	500	0	0
			Liabilities on bills discounted other than debtor's own acceptances for value, as per list (D), viz.—						

ASSETS (as stated and estimated by Debtor).	Estimated to produce. £	s.	d
Property, as per list (H), viz.—			
(a) Cash at Bankers..............................	0	5	6
(b) Cash in hand..............................	1	0	0
(c) Cash deposited with Solicitor for costs of Petition			
(d) Stock in Trade (cost £)........................			
(e) Machinery..............................			
(f) Trade fixtures, fittings, utensils, etc..........................			
(g) Farming stock..............................			
(h) Growing crops and tenant right..........................			
(i) Furniture	10	0	0
(j) Life Policies..............................			
(k) Other property, viz.— 50,000 fully paid £1 shares in the Ephemeral Gold Reduction Company, Ltd..........................	1,000	0	0
Total as per list (H)................................	1,011	5	6

£	s.	d.		£	s.	d.
			On Accommodation Bills, as drawer, acceptor, or indorser £1,000 0 0			
			On other bills, as drawer or indorser .... £			
			£1,000 0 0			
1,000	0	0	Of which it is expected will rank against the estate for dividend	1,000	0	0
			Contingent or other liabilities as per list (E) .... £			
			Of which it is expected will rank against the estate for dividend			
100	0	0	Creditors for rent, etc., recoverable by distress as per list (F) £100 0 0			
			Creditors for rates, taxes, wages, etc. payable in full, as per list (G) Sheriff's charges payable under sec. 11 of the Bankruptcy Act, 1890, estimated at			
			Deducted contra £100 0 0			
£17,650	0	0	£	16,550	0	0

	£	s.	d.
Book debts, as per list (I), viz.—			
Good	50	0	0
Doubtful £5,000 0 0			
Bad £4,000 0 0			
£9,000 0 0			
Estimated to produce	1,000	0	0
Bills of Exchange or other similar securities, on hand, as per list (J) .... £			
Estimated to produce			
Surplus from securities in the hands of creditors fully secured (per contra)	50	0	0
£	2,111	5	6
Deduct creditors for distrainable rent, and for preferential rates, taxes, wages, Sheriff's charges, etc. (per contra)	100	0	0
£	2,011	5	6
Deficiency explained in statement (K)	14,538	14	6
£	16,550	0	0

I, Artemus Debtor, of 1998, Old Broad Street, London, E.C., in the County of London, make oath and say, that the above Statement and the several lists hereunto annexed marked A, B, C, D, E, F, G, H, I, J, and K are to the best of my knowledge and belief a full, true, and complete statement of my affairs on the date of the above-mentioned Receiving Order made against me.

Sworn at 1749 Queen Victoria Street, in the County of London,
this 3rd day of January, 1909, before me, ROBERT DEEDS,
A Commissioner for Oaths.

Signature A. DEBTOR.

* High Court of Justice *or* the County Court of ——, holden at ——.

DEFICIENCY ACCOUNT

	£	s.	d.	£	s.	d.		£	s.	d.	£	s.	d.
Excess of assets over liabilities on the * 1st day of January, 1906 (if any)......				10,065	0	0	Excess of liabilities over assets on the * day of 19 (if any)...						
Net profit (if any) arising from carrying on business from the * day of , 19 , to date of Receiving Order, after deducting usual trade expenses							Net loss (if any) arising from carrying on business from the * day of 19 , to date of Receiving Order, after deducting from profits the usual trade expenses						
Income or profit from other sources (if any) since the * 1st day of January, 1906..				1,350	10	9	Bad debts (if any) as per Schedule "I" †				8,000	0	0
Deficiency as per Statement of Affairs...				14,538	14	6	Expenses incurred since the * 1st day of January, 1906, other than usual trade expenses, viz. household expenses of self and ‡ wife and two children.........				8,056	10	0
							§ Other losses and expenses (if any)— Losses through Stock Exchange speculations				3,897	15	3
							Losses through betting..................				6,000	0	0
							Surplus as per statement of affairs (if any)						
Total amount to be accounted for			‖ £	25,954	5	3	Total amount accounted for			‖ £	25,954	5	8

Signature A. DEBTOR.

Dated January 8, 1909.

* This date should be 12 months before date of Receiving Order, or such other time as Official Receiver may have fixed.

† This Schedule must show when debts were contracted.

‡ Add "wife and children" (if any), stating number of latter.

§ Here add particulars of other losses or expenses (if any) including depreciation in the value of stock and effects or other property as estimated for realization, and liabilities (if any) for which no consideration received.

‖ These figures should agree.

The accounts of a Trustee in bankruptcy must be kept according to a prescribed form; they must be audited by the Committee of Inspection periodically (monthly in the case of the Trading Account, and quarterly as regards the other accounts), and they must be submitted, at half-yearly intervals, for audit by the Board of Trade. An audited transcript of the trustee's "**Estate Cash Book**" is transmitted by the Board of Trade to the Court where the Receiving Order was made.

Upon the conclusion of the distribution of the whole estate, or upon the realization and distribution of all the realizable assets, the Trustee may apply to the Board of Trade for his "**Release**," giving notice to all creditors who have proved their debts and to the Debtor of his intention to do so. A **Realization Account** in the prescribed form, giving a summary of all the Trustee's receipts and payments, is sent out with the above notification. The granting of a "Release" to a Trustee discharges him from all liabilities incurred by him in the discharge of his duty to the bankrupt's estate and to the creditors.

Deeds of Arrangement

What is commercially known as a "**Deed of Arrangement**" is the formal embodiment, in the form of a deed, of an arrangement arrived at between an insolvent person and his creditors *generally*, or with certain creditors professing to act on behalf of themselves and all the other creditors *privately* (*i. e.* without the intervention of the Bankruptcy Courts) in regard to his affairs.

A man may make such private arrangements with individual creditors as he chooses, but if, being financially embarrassed, he executes a deed in favour of his creditors *generally*, transferring all his property to one or more "trustees" for the creditors, to be held by such trustees either for realization and distribution among the creditors or for the continuance of trading operations on their behalf, this deed is termed a "Deed of Arrangement," and requires to be registered at a Government office. Such a proceeding also constitutes an "**Act of Bankruptcy**," *i. e.* an act on the part of a debtor which entitles a creditor not assenting to the Deed to present a bankruptcy petition against him.*

* The "Acts of Bankruptcy" are as follows. If the Debtor has— (*a*) made an assignment of his property in trust for his

The most common form of Deed of Arrangement is one whereby the debtor transfers all his property to a trustee for the benefit of the creditors generally, in consideration of their releasing him from the debts he owes to them; the trustee under the deed being directed to realize the estate and to distribute the product among the creditors *pro rata* according to their claims. The deed is usually made between the debtor, one or more creditors, and a trustee for the latter, the trustee appointed being usually a professional accountant. The execution of a deed of arrangement by a debtor does not affect the right of a creditor (other than one who has specifically agreed to be bound by the deed) to present a bankruptcy petition against him, and this right continues for three months after the execution of the deed (*i.e.* for three months after the commission of the "Act of Bankruptcy"). If the debtor be declared bankrupt within three months after having executed a Deed of Arrangement, the deed and all proceedings under it fall to the ground, the trustee under the bankruptcy then having the right to receive the product of all the assets realized to date, and to call the trustee under the "Deed of Arrangement" to account. As a consequence of there being always this possibility of a complete overthrowal of a Deed of Arrangement for three months after its execution, the trustee under such deeds almost invariably defers the distribution of any assets he may have realized until the end of this period.

A Deed of Arrangement is frequently put forward as a proposal by an insolvent debtor at a meeting of his creditors convened by him for the purpose of laying his position before them. From the point of view of the debtor a Deed of Arrangement is preferable to bankruptcy proceedings, as it avoids the publicity consequent upon the latter; from the creditors' point of view a "private arrangement" usually produces larger dividends within

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creditors generally; (*b*) made a fraudulent assignment of his property or any part thereof; (*c*) made a conveyance amounting to a "fraudulent preference"; (*d*) having, with intent to defeat or delay his creditors, departed out of England, or being out remained out, or absented himself, or begun to keep house; (*e*) suffered execution on his goods, after they have been either sold or held by the sheriff for twenty-one days; (*f*) filed a declaration of his inability to pay his debts or presented a Bankruptcy Petition against himself; (*g*) neglected to pay or secure a judgment debt after service of a "Bankruptcy notice"; (*h*) given notice to any creditor of suspension of payment.

a shorter time than under the more cumbersome and costly official proceedings in bankruptcy.

The deed need not be signed by every creditor; a creditor may assent to it by letter, or may show his assent in practical form by accepting a dividend under it.

Apart from a deed which contemplates immediate realization and distribution other varieties of Deeds of Arrangement are met with—*e.g.* (1) an arrangement whereby the debtor's business is to be continued by a committee of his creditors on behalf of the creditors generally; (2) an arrangement whereunder the debtor is to continue carrying on his business subject to the supervision of a committee of creditors, it being agreed that a composition of so much in the pound spread in instalments over a given period of time is to be paid to all the creditors.

All such forms of arrangement by a debtor with his creditors *generally* require to be registered, and constitute "acts of bankruptcy" on the part of the debtor.

No official form of Statement of Affairs for submission to creditors is prescribed in the case of a Deed of Arrangement, although if a meeting of creditors is being held to consider the terms of a suggested Deed of Arrangement, a Statement of Affairs is almost invariably laid before the creditors who attend. The forms adopted usually follow the lines employed in bankruptcy proceedings, minus the official verbiage of the latter. Trustees under Deeds of Arrangement must transmit periodical statements of account to the Board of Trade, but the latter body does not, as in bankruptcy, audit such returns; it merely files them without investigation.

Receipts and Payments Accounts

Many institutions and societies whose monetary transactions are of a benevolent or non-trading nature compile and publish their periodical financial statements in the form of a Receipts and Payments Account.

A **Receipts and Payments Account** is a statement dealing with *cash transactions only*. The account may be briefly described as being a condensed summary of the Cash Book, containing, on the Debit (Receipts) side, the actual money received during the period under review, and on the Credit (Payments) side, the cash actually disbursed during the same period, analyzed under appropriate headings. As a matter of course, a statement of

this character must commence and close with the initial and final balance of cash in hand, at the beginning and close respectively of the period to which the statement relates.

Financial statements of this type are most frequently met with in connection with clubs, literary or benevolent institutions, and similar undertakings. In these cases the funds are usually entrusted to an "honorary treasurer," and, when such is the fact, the account is most appropriately headed as follows—

Alfred Barrow, Esq.,
Treasurer,
in account with
The Blackheath Common Literary Society
for the year ended December 31, 1909.

As a matter of actual experience it is unfortunately the fact that the terms "Receipts and Payments Account" and "Income and Expenditure Account" are frequently regarded as being synonymous, whereas they are essentially different in character and result, inasmuch as an Income and Expenditure Account, as will be explained hereafter, deals with the total income and expenditure for the period covered by the account *irrespective of whether such income and expenditure has been received and paid or not.*

It is not an uncommon experience, moreover, to find the term Receipts and Payments Account applied to statements wherein "Capital" and "Revenue" receipts and payments are combined in one and the same account.

It will be unnecessary to point out to the student that, in such cases, the account should be strictly confined to the revenue items (in the form of an Income and Expenditure Account), a proper Balance Sheet being also presented in order to record the capital transactions.

It will sometimes be the fact that a Receipts and Payments Account does actually represent the income and expenditure for the period dealt with, but this coincidence must not mislead the student into wrongly designating such a statement as an "Income and Expenditure Account." An account of this character is merely a summary of the Cash Book, and the items therein appear upon the same sides as those upon which they would be recorded in the Cash Book.

The LORD STANLEY OF ALDERLEY, Treasurer, in account with the NATIONAL EDUCATION ASSOCIATION for the Year ended December 31, 1907

		£	s.	d.			£	s.	d.
1906.					1907.				
Dec. 31	To Balance in hand	567	19	0	Dec. 31	By Rent, Office Expenses, Stationery, etc.	181	5	11
1907.						,, Salaries and Wages (Secretaries, Clerks and Reporters), including expenses of Lectures, etc.	666	18	4
Dec. 31	To Donations and Subscriptions	1,034	0	0		,, Printing (Publications, Leaflets, etc.)	174	14	1
	,, Sales and Sundries	8	0	6		,, Parliamentary Papers, Books, Library Fittings, etc.	105	6	5
	,, Interest on Special Fund Deposit	9	10	11		,, Conference Expenses	3	6	6
						,, Postage	65	15	0
						,, Balance carried down— Special Fund—On Deposit £500 0 0 *Less* Amount due to Treasurer on Current Account 77 15 10	422	4	2
		£1,619	10	5			£1,619	10	5
1907.									
Dec. 31	To Balance brought down— Special Fund—On Deposit £500 0 0 *Less* Amount due to Treasurer on Current Account 77 15 10	422	4	2					

In cases where a Receipts and Payments Account efficiently meets the book-keeping requirements, it is generally economical and advantageous to employ a Columnar Cash Book, in the analysis columns of which the final Receipts and Payments Account is being gradually compiled.

An example of a simple Receipts and Payments Account is given on page 427.

Income and Expenditure Accounts

(*Revenue Accounts*)

It is always preferable, when possible, to publish the accounts of institutions of the nature described in the preceding pages in a form which shows the whole of the income accruing to the society for the period covered by the account, irrespective of whether such income has been received or not, together with the whole of the expenditure properly chargeable to the same period, irrespective of whether such expenditure has actually been paid, or is still outstanding. An account which fulfils these requirements is termed an **Income and Expenditure Account**, and differs essentially from a Receipts and Payments Account as previously described.

All items of income are shown on the credit side of the Income and Expenditure Account, whilst the expenditure appears on the debit side, just as is the case in connection with the items composing a Profit and Loss Account, the two accounts being of precisely similar nature, although prepared to meet the needs of undertakings of a different character.

The Income and Expenditure Account should be accompanied by a Balance Sheet wherein the Assets and Liabilities of the undertaking are set out in the ordinary way.

The balance of the Income and Expenditure Account must be shown in the Balance Sheet, and represents the surplus or deficiency, as the case may be, as at the date upon which the Balance Sheet has been prepared.

The student will have gathered from the foregoing remarks that the undermentioned are the essential distinctions which exist as between the two accounts—

(*a*) A Receipts and Payments Account deals with cash *actually received and disbursed*, and is a

ROYAL SAILORS' RESTS.

MISS WESTON'S MISSION AND TEMPERANCE WORK

Income and Expenditure Account for the Year ended June 30, 1908

	£	s.	d.		£	s.	d.
To Stock of Stationery, etc., June 30, 1907	336	3	1	By Subscriptions and Donations	12,099	5	10
„ Printing, Stationery, Advertising, and Travelling in connection with Meetings for this work	1,597	5	9	„ Admission Fees to Halls and Contents of Visitors' Boxes	210	5	3
„ Salaries of Clerical Staff, Office Expenses, Carriage and Incidentals	1,649	17	4	„ Receipts at Sailors' Wives' Meetings	710	16	7
„ *Monthly Letters*—cost of Printing and Distributing	671	11	2	„ Sundry Receipts	168	13	11
„ Royal Naval Temperance Society—Books, Pamphlets and Periodicals	2,684	9	10	„ *Ashore and Afloat*— Sales £2,421 1 5; Stock on hand, June 30, 1908 71 0 8	2,492	2	1
„ Salaries and Expenses of Missionaries and Workers	3,191	15	3	„ Stock of Books, Pamphlets, Stationery, etc., on hand, June 30, 1908	376	0	2
„ Repairs, Lighting, and Cleaning Halls	282	5	7	„ Balance carried to General Income and Expenditure Account	114	0	11
„ Entertainments—Band Expenses, Magic Lanterns, Cinematograph and Photography	1,259	12	9				
„ Teas, Sailors' Wives' Meetings, Workrooms, Girls' Clubs, and Boys' Brigade	1,145	7	1				
„ Special Relief granted	1,183	2	3				
„ Subscriptions to Foreign Sailors' Rests and Hospitals	346	14	7				
„ *Ashore and Afloat*— Stock on hand, June 30, 1907 £104 1 4; Cost of Printing and Distributing 1,718 18 9	1,823	0	1				
	£16,171	4	9		£16,171	4	9

condensed summary of the Cash Book and nothing more.

(*b*) An Income and Expenditure Account deals with the whole of the income and expenditure for the period, *irrespective of whether such income and expenditure has actually been received, and paid or not*, and in character approximates to the Profit and Loss Account employed in a trading concern.

An example of an Income and Expenditure Account is appended. This account forms one of a set of six similar statements, dealing with various branches of the work, and is accompanied by a Balance Sheet showing the financial position of the institution as on the closing date.

EXERCISES.

20A.

A. Wilson of London and B. Morris of Rio de Janeiro embark in a joint consignment of Manchester goods. Profits are to be shared equally between them. A. Wilson is to purchase in England and pay for the goods consigned, and is to draw upon B. Morris at sight for their invoice price (but not in respect of any disbursements).

A. Wilson consequently bought on January 1, 1909, Manchester goods to the value of £1,050, paying cash therefor, and disbursed on January 6, freight and shipping charges, £105 10*s.*; insurance, £4; packing £4 15*s.* On the same date he drew upon B. Morris for £1,050 at sight as agreed, and sold the Bill to the London and Brazilian Bank, Ltd., for £1,039 10*s.*, the discount is to be borne jointly between the parties to the venture.

B. Morris received the goods on February 1, 1909, and disbursed on that date landing charges, £5 3*s.* 2*d.*, and Government duty, £121 4*s.* 6*d.* He sold the goods for cash on February 3, 1909, for £1,726 4*s.* 2*d.*, and honoured A. Wilson's draft the same day.

On February 4 B. Morris prepared (from his own books and from the statements regarding the adventure rendered to him by A. Wilson) a combined statement regarding the transaction, and remitted to A. Wilson a cheque on London for the amount due to him.

Show the entries relating to the above venture as they would appear in either party's books, as well as a combined statement showing the result of the whole transaction.

20B.

A. B. is adjudged a bankrupt on September 1, 1908. His position at that date, as shown by his books, was as follows—

	£
(1) Unsecured creditors	3,000
(2) Secured creditors (Bankers), secured by deposit of Title Deeds relating to House Property (the property itself being estimated as worth its book value, viz. £1,500)	1,200

		£
(3)	Preferential creditors for rates and taxes . .	185
(4)	Cash at Bank	100
(5)	Book Debts	2,000
(6)	House Property (pledged with Bankers as above), valued at cost	1,500
(7)	Furniture, valued at cost	100
(8)	Investments, 1,000 £1 shares in the Amalgamated Construction Co., Ltd., valued at cost . .	400
	6,000 £1 Deferred Shares in the United Aviation Corporation, Ltd., valued at cost . . .	1,075

Further inquiry reveals the following facts—

Item (5). Of the £2,000 Book Debts £100 are "good," and the balance must be treated as "doubtful" and estimated to produce £500.

Items (2) and (6). The House Property will only realize £1,000, out of which the Banker's claim has to be satisfied.

Item (8). The shares in the Amalgamated Construction Co., Ltd., may be taken as being worth 1*s.* each, and those in the United Aviation Co., Ltd., as being worth 1*d.* each. As regards his Deficiency Account, A. B. acknowledges that, two years prior to his bankruptcy, he was possessed of a capital of £10,000. His only income since that date has consisted of sundry director's fees amounting to £200. He acknowledges having spent, during the two years, £3,000 per annum on household expenses, and £2,000 in speculation, and has lost £1,400 through bad and doubtful loans (as above), and £1,410 spent in promoting a patent bottle company which proved a failure. In addition to these matters are the losses expected to arise in connection with the realization of his House Property and Investments as set out above.

From the above particulars prepare the Statement of Affairs and Deficiency Account of A. B.

20c.

The Maes-y-Gwyn Colliery Co., Ltd., took, on January 1, 1905, upon lease from the landlord (Evan Ap Thomas, Esq., J.P.) a coal-bearing area upon the following terms: viz. a minimum rent of £300 merging into a Royalty of 6*d.* per ton, with power to recoup "short workings" over the first three years of the lease.

The annual output of the colliery was as follows—

1905	5,000 tons
1906	11,000 ,,
1907	14,000 ,,
1908	20,000 ,,

Show the Landlord's "Royalties" and "Short Workings" Accounts as they would appear in the Company's books.

20d.

1. Explain what is meant by a Joint Adventure and how the transactions arising out of such an adventure are recorded.

2. What is the difference between a "Bankruptcy" and a "Private Arrangement" made by an insolvent debtor? Sketch briefly the main characteristics of each procedure.

3. Upon what principle is a Statement of Affairs prepared, and wherein does it differ from a Balance Sheet?

4. What are "Cost" accounts? Explain briefly the main principles underlying them.

5. Explain the following terms—

Royalties, Minimum Rent, "Short Workings," Receiving Order, Deficiency Account, Official Receiver, Joint Consignment.

6. What is Goodwill, and how is its value to be arrived at?

7. What is meant by the Double Account System, to what classes of undertakings is it usually applied, and what useful purpose does it serve?

8. "The Double Account System frequently tends to produce a condition of financial unsoundness in certain respects, and sometimes affects the equilibrium of annual profits over a series of years." Discuss and explain this statement.

Answers.—

20A. Profit on the joint adventure = £425 1*s.* 6*d.*, divisible equally between the parties.
Cheque remitted by B. Morris to A. Wilson to close the venture amounts to £337 5*s.* 9*d.*

20B. Deficiency, £2,510.
Totals of Deficiency Account, £12,710.

20C. 1905. Royalty, £125; Paid to Landlord, £300.
1906. Royalty, £275; Paid to Landlord, £300.
*1907. Royalty, £350; Paid to Landlord, £300.
1908. Royalty, £500; Paid to Landlord, £500.

* Note £150 irrecoverable "short workings" written off December 31, 1907.

CHAPTER XXI

THE FORM OF PUBLISHED ACCOUNTS

THE average student of Book-keeping has, as a rule, but little chance of examining examples of actual accounts prepared for the information of the partners of a private concern, or for publication to the shareholders of a Limited Company.

The Author's experience is that the consideration of sets of "live" accounts is both interesting and instructive to the intelligent student. Accordingly the accounts of a few well-known and representative undertakings are here given, with brief explanatory comments when such appear to be necessary or useful. Where the accounts relate to the affairs of private firms fictitious names have been substituted.

As a rule, the accounts of Limited Companies are published annually, although in the case of Banking and financial houses and Railways, half-yearly meetings are generally held at which the accounts for the past half-year are presented to the shareholders.

In private partnerships the period covered by the accounts is fixed by the Articles of Partnership, but in most cases they are prepared once a year only.

A careful perusal of the specimen accounts which follow will reveal to the student a wide divergence of form. This practical illustration will convince him of the unwisdom of attempting to dogmatically advocate the adoption of any one stereotyped form of account to meet the varying needs of different undertakings.

Many elements enter into and decide the final form in which accounts are published, *e. g.* the special circumstances surrounding the particular business, the extent to which it is wise to disclose trade details for the information of rivals or the public, the personal opinions (or fads) of the Directors or Auditors, and so on.

The student must not assume that, in the Author's opinion, the accounts which follow are necessarily presented in a theoretically ideal form, or in a form most suitable to the needs of the respective undertakings. They are set out exactly as they were published, and are presented to the student for examination and consideration.

The Author is indebted to the various Directorates for kind permission to reproduce the accounts which appear in this chapter.

THE UNION OF LONDON & SMITHS BANK, Ltd.

STATEMENT OF ACCOUNTS for the Half-year ending December 31, 1908

GENERAL BALANCE

Liabilities.		£	s.	d.
Capital subscribed, £22,934,100, in 229,341 Shares of £100 each; paid up, £15 10s. per Share		3,554,785	10	0
Reserve Fund— Invested in Consols, Local Loans Stock, and Transvaal Government 3 per cent. Guaranteed Stock, as per Contra		1,150,000	0	0
Current Accounts	£25,116,492 19 4			
Deposit Accounts	10,759,370 8 0			
		35,875,863	7	4
Acceptances and Guarantees		3,461,362	2	1
Liabilities by indorsement on Foreign Bills sold		24,268	11	7
Other Liabilities, being interest due on Deposits, unclaimed Dividends, etc.		563,352	1	11
Rebate on Bills not due		29,077	5	11
Profit and Loss— Balance brought forward	£193,839 17 7			
Net profit for the half-year ending December 31, 1908	174,507 6 3			
		368,347	3	10
£		45,027,056	2	8

Assets.		£	s.	d.
Cash in hand	£3,353,635 6 10			
Cash in Bank of England	3,528,438 12 2			
		6,882,073	19	0
Money at Call and at Short Notice		6,933,965	2	0
Investments— Securities of and guaranteed by the British Government	£2,989,312 7 11			
India Stock and Indian Railways Guaranteed Bonds	313,098 6 10			
English Corporation Stocks, Railway and Waterworks Debenture and Preference Stocks, Colonial Stocks, Foreign Government and Railway Debenture Bonds	1,748,753 4 8			
Other Investments	94,915 18 0			
	5,096,079 12 5			
Reserve Fund— £567,000 Consols; £515,500 Local Loans Stock; £207,600 Transvaal Government 3 per cent. Guaranteed Stock	1,150,000 0 0			
		6,246,079	12	5
Bills Discounted— (a) Three months and under	£3,978,249 15 1			
(b) Exceeding Three months	450,511 13 9			
		4,428,761	8	10
Loans and Advances		15,456,759	15	1
Liabilities of Customers on Acceptances and Guarantees, as per Contra		3,461,362	2	1
Liabilities of Customers for indorsements, as per Contra		24,268	11	7
Bank Premises, chiefly freehold (at cost or under)		1,455,879	4	1
Other Assets, being interest due on Investments, etc.		137,906	7	7
£		45,027,056	2	8

THE UNION OF LONDON & SMITHS BANK, LTD.
PROFIT AND LOSS ACCOUNT for the Half-year ended December 31, 1908

Dr.	£	s.	d.	Cr.	£	s.	d.
Interest allowed to Customers ...	171,864	6	6	Profit unappropriated on June 30, 1908	193,839	17	7
Salaries, Contributions to Pension Fund, and other expenses at Head Office and Branches ...	215,749	4	9	Gross Profit for the half-year ending December 31, 1908, after making provision for all bad and doubtful debts and payment of Income Tax	591,198	3	5
Rebate on Bills not due	29,077	5	11				
Dividend on 229,341 Shares at 15*s.* 6*d.* per Share, equal to a rate of 10 per cent. per annum.............£177,739 5 6							
Balance, being undivided profit carried forward to the next half-year..................190,607 18 4	368,347	3	10				
	£785,038	1	0		£785,038	1	0

The accounts of the above Bank furnish a good example of the method in which the half-yearly accounts of a great London Bank are published.

The student will note that the order in which the assets are marshalled is that described on p. 124 as the most suitable form for adoption by financial houses whose claim for public confidence is based, to a great extent, upon their ability to exhibit the possession of a safe and sufficient margin of liquid assets with which to meet all probable claims in case of urgent need. For this reason it is the practice of Banks to marshal their assets in the order of their realizability. The list is therefore headed with the already realized asset of "Cash in Hand, £3,353,635 6*s.* 10*d.*" This sum represents the coin and notes in the hands of the paying cashiers at the Head Office and Branches as on December 31, 1908, as shown by the "Daily Balance" books, and also includes the Cash Reserves in the hands of the chief cashiers at the same establishments.

The item "Cash in Hand" generally includes also various "Cash Articles," such as cheques received too late for presentation at the Clearing House,* postal orders, etc. Very few English Banks other than the Bank of England now issue their own notes, and in cases where such notes are issued the Bank's "Own notes" in the hands of its cashier must be deducted from the "Notes issued Account," otherwise the accounts will show a larger cash balance than really exists. The London Banks, in common with the Bank of England, withdraw from circulation all Bank of England notes which reach their hands —the "life" of a £5 Bank note, for instance, averaging about one week only.

The item "Cash in Bank of England, £3,528,438 12*s.* 2*d.*," represents the amount standing to the credit of the Union Bank upon Current Account with the Bank of England as on December 31, 1908, and forms a further Cash Reserve in case of emergency.

All Banks which are members of the Bankers' Clearing House keep Current Accounts with the Bank of England, and utilize their balances there as funds wherewith to satisfy the balance, if any, payable by them to the other "Clearing" Banks each day.

* Country cheques must reach the Clearing House by 12.30 p.m.

The London Clearing House is the place where the leading Banks meet to exchange cheques held by them, and drawn on other "Clearing" Banks. The cheques drawn upon one Clearing Bank and presented at the Clearing House, are offset against those held by it upon other Clearing Banks, and the final balance resulting upon the transactions for the day is adjusted by an order drawn by the Clearing House clerk of each Bank upon the accounts of the Clearing Bankers with the Bank of England. If the necessary transfer is a credit, the order is green, and if a debit the order is blue. The Bank of England upon receipt of these orders makes the necessary transfers of the differences represented by the orders from or to the accounts of the various Banks concerned. Nearly all important Banks have seats at the London Clearing House, and to some extent the same principle is operating in provincial towns and abroad—the practice obviously greatly simplifying the detailed work of the Banking world. Every Bank keeps a record of its daily transactions with the Bank of England, consisting of withdrawals, payments to, and Clearing House transfers. These records are entered in the "Goldsmith's Book," or "Bank of England Book."

The item "Money at call and at short notice, £6,933,965 2*s*.," represents a liquid asset of another type which is more or less available in case of need. Loans are largely made by the London Banks to bill-brokers "at call," *i. e.* they are repayable at any moment or at short notice. Bundles of "first-class" Bills are deposited to cover these loans, a suitable margin over the amount of the loan being demanded in each case. The bills are so arranged that as far as possible they mature at or about the same date. Short loans are also made upon "Floaters" (Exchequer Bonds, Consol bearer certificates, or other sterling securities). Such loans are either "At call," or on "Short notice" * (usually seven days). A large business is also transacted by the London Banks in loans to stockbrokers. These loans usually run from "account to account," that is to say, from one Stock Exchange settling day to another. "Settling days" usually take place twice a month, or, in the case of Consols, once a month (usually on the third day of the month).

The stockbroker, upon requesting a loan from account to account, deposits by way of security a parcel of securities, accompanied by a list whereon the securities are enumerated and valued at the "make up price" of the day. A margin of 15 per cent. or thereabouts is required by the lending Bank to cover market fluctuations.

Similar advances are frequently made upon "Consignments," "Produce Documents," and "Dock Warrants," and in these cases the loan is usually limited to two-thirds of the invoice price of the goods shipped.

The item "Investments" is self-explanatory. The student will, however, note that the "Reserve Fund" is separately invested in good securities. Banks afford a good illustration of those cases where it is eminently desirable that the Reserves created out of profits should be immediately available *in cash* in case of need, and, in order that this end may be secured, the separate investment of the Fund in easily realizable outside securities is essential.

The item "Bills discounted, £4,428,761 8*s*. 10*d*.," represents the total of the unmatured Bills purchased by the Bank from its

* Loans liable to immediate call are styled "Call Money"; when made for one week, "Weekly Money," and when the advance is for half a day (afternoon to morning), "Overnight Money."

customers, and from bill brokers under discount, as explained in Chapter XII, page 183.

The item "Loans and Advances, £15,456,759 15*s.* 1*d.*," represents the total of the loans made by the Bank to its customers and others, ordinarily with security but occasionally without, for longer periods than the short loans scheduled above. The custom as to these loans varies as between different Banks, and as between London and Country Banks. The general country practice is to allow customers an "overdraft" upon Current Account—a note being made at the head of each account of the limit of such overdraft. London Bankers, on the other hand, prefer that the customer's Current Account shall be maintained in credit, and a separate Loan Account opened to record the transactions arising out of any loan that may be granted, the proceeds of such loan, as and when made, being credited to the customer's Current Account. An equitable charge, in favour of the Bank, is usually deposited with the securities lodged to cover the loan. Where Stocks and Shares are deposited as "cover" they must be actually transferred to the names of the nominees of the Bank. Loans made to customers under these methods are usually repayable at a certain *fixed* date.

The rate of interest charged upon loans in London is usually 1 per cent. above the current "Bank Rate," with, as a rule, a *minimum* rate of 4 per cent. per annum ; some provincial banks however work upon a minimum charge of 5 per cent. per annum ; but the rate to be charged naturally varies according to the adequacy of the security and the reputation of the borrower.

The student will note that the item "Liabilities of Customers on acceptances, etc., as per contra, £3,461,362 2*s.* 1*d.*," appears upon both sides of the Balance Sheet. The item represents bills which have been accepted or endorsed on behalf of customers, usually to meet liabilities due abroad in cases where a remittance of undoubted worth and negotiability is necessary. The customers who are accommodated in this manner are, of course, liable to the Bank for these acceptances, hence the appearance of the item twice—once as representing the liability of the Bank to the outside world, and again as showing the liability of the customers thus accommodated to the Bank. Accommodation of this description is not afforded to customers unless the sum involved is covered by securities, or by an ample credit balance on Current Account. A charge for commission is usually made for accommodation of this description.

On the Liabilities side of the Balance Sheet the item "Rebate on Bills not due, £29,077 5*s.* 11*d.*," requires some explanation. It is the practice of Bankers, when purchasing Bills from customers, to pass at once the amount of the discount charged upon the acceptances in daily totals to the credit of the "Discount Account" (through the "Bills Received for Discount Register") in the General Ledger. It will be obvious, therefore, that, at any given closing date, credit will have been taken for an amount of discount on bills which have not yet matured, and the discount upon which has not therefore all been earned in respect of the period covered by the accounts. In order, therefore, that the current Profit and Loss Account may not receive credit for a larger sum of discount than has actually been earned during the period, the amount of the unearned discount is calculated and carried forward to the next half-year. To effect this, the Discount Account in the General Ledger is debited with the "rebate," and a like sum is brought

down on the credit side of the account as a Liability in the same manner as was explained to be the case with the various "provisions" described on p. 100.

The item, "other Liabilities at £563,352 1*s.* 11*d.*," besides including unclaimed dividends and sums due to other banks, probably includes also such items as have been held in suspense pending their final allocation.

The remainder of the Liabilities set out in the Balance Sheet are self-explanatory.

In common with some other undertakings it is frequently the practice of Banks to create "Secret Reserves," that is to say, Reserves are made out of profits which are not disclosed in the published accounts. Perhaps, in the case of Banks, the most frequent methods in which Secret Reserves are created are—

(*a*) The excessive depreciation of the Bank Premises owned. The valuable Freehold Premises owned by some Banks stand at much below their actual value in the published accounts.

(*b*) The maintenance of Assets at cost in cases where they have greatly appreciated. In the present time of depreciated market value of securities, however, Secret Reserves arising from this cause have largely disappeared. Formerly Consols frequently appeared at valuations much below market value.

(*c*) The omission of Assets altogether from the Balance Sheet. The Premises (Head Office and Branches) owned by the Bank of England, for example, do not appear at all on the Bank's Balance Sheet, though obviously of considerable value!

This is not a suitable place to discuss the ethics of the question of the creation of Secret Reserves. From a Banking standpoint, however, there is no doubt that the creditors and customers of a Bank have but little ground of complaint when the financial position of their debtor is in reality stronger than is disclosed by the accounts published.

In these days of banking amalgamations almost all the leading London Banks possess many suburban and provincial Branches.

A complete set of books is kept at each Branch. At frequent intervals, returns of the progess and financial position of the Branch are forwarded by the manager to the Head Office.

"Travelling Inspectors" are employed in constantly visiting the Branches. The principal duty of these officials is to audit and check the accounts and books of the various Branches. The verification of the cash and securities in hand, and the criticism of the outstanding advances made by the Branch to its customers, also form important features of the investigations of these officers. At the conclusion of each visit an "Inspection Report" is forwarded to the Head Office.

The trading results of the various Branches, together with their assets and liabilities, are incorporated, at the close of each half-year, in the Head Office Profit and Loss Account and Balance Sheet.

London and North Western Railway.

STATEMENTS OF ACCOUNT

FOR THE HALF-YEAR ENDING

31st DECEMBER, 1908.

[No. 4] **STATEMENTS OF**

Dr. **RECEIPTS AND EXPENDI-**

Expenditure.	Amount Expended June 30, 1908. £	s.	d.	Amount Expended during Half-year. £	s.	d.	Total. £	s.	d.
Lines open for Traffic	99,215,331	13	1	275,786	6	8	99,491,117	19	9
Lines in course of Construction—									
Wilmslow and Levenshulme	368,570	5	11	79,571	12	9	448,141	18	8
Red Wharf Bay	36,829	9	10	12,484	11	6	49,314	1	4
Working Stock	12,145,943	19	11	89,808	4	2	12,235,752	4	1
Subscriptions to other Railways—									
West London Extension	185,000	0	0				185,000	0	0
Shropshire Union	240,860	12	5				240,860	12	5
Manchester and South Junction	513,110	18	2				513,110	18	2
Ditto Debentures converted	108,333	0	0				108,333	0	0
North London	1,328,780	0	0				1,328,780	0	0
Oldham, Ashton, and Guide Bridge	150,000	0	0				150,000	0	0
Ditto Debentures converted	23,300	0	0				23,300	0	0
Cambrian	15,000	0	0				15,000	0	0
Cockermouth, Keswick, and Penrith	25,000	0	0				25,000	0	0
Dundalk, Newry, and Greenore	383,915	0	0				383,915	0	0
Ditto Debentures converted	133,200	0	0				133,200	0	0
Harborne	20,000	0	0				20,000	0	0
Gt. Southern and Western, Nos. 1 and 2 Rys., North Wall Extension	126,838	14	2				126,838	14	2
Callander and Oban	50,000	0	0				50,000	0	0
Portpatrick and Wigtownshire Debentures converted	45,572	17	9	148	15	1	45,721	12	10
Charnwood Forest	50,000	0	0				50,000	0	0
Dublin and South-Eastern	100,000	0	0				100,000	0	0
Ditto New Ross and Waterford Extension	87,000	0	0				87,000	0	0
Steam Boats	882,344	15	10	51,698	7	10	934,043	3	8
Leased Lines—									
Birkenhead	419,857	0	4	*Cr.* 136	*13*	*11*	419,720	6	5
Shrewsbury and Hereford	190,233	11	3	13	1	4	190,246	12	7
Leased Lines Debentures converted	1,452,716	12	6				1,452,716	12	6
£	118,297,688	11	2	509,374	5	5	118,807,062	16	7

Dr. [No. 9] **REVENUE ACCOUNT, Half-**

		£	s.	d.	Dec. 31, 1907. £
Abstracts—					
(*A*)	To Maintenance of Way, Works, and Stations	768,211	14	7	830,377
(*B*)	,, Locomotive Power	1,406,030	18	11	1,503,564
(*C*)	,, Carriage and Wagon Repairs	426,648	5	8	409,723
	,, Mileage of Carriages and Wagons of other Companies	18,942	16	10	25,287
(*D*)	,, Traffic Expenses	1,745,809	13	5	1,827,506
(*E*)	,, General Charges	198,516	1	11	200,849
	,, Law Charges	12,196	2	11	13,004
	,, Parliamentary Expenses	1,000	0	0	2,500
	,, Compensation for Accidents, Losses, etc.	101,729	9	7	95,929
	,, Rates and Taxes	323,989	11	7	316,838
	,, Government Duty	27,468	5	6	27,765
	,, Preston and Wyre Steamboats—Proportion of Joint Expenses	18,608	13	8	20,938
(*F*)	,, Steamboat Expenses	60,460	9	10	56,954
	,, Depreciation and Insurance of Steamboats	22,500	0	0	22,500
		5,182,107	4	0	5,853,684
	,, Balance carried to Net Revenue Account	2,886,327	19	10	3,021,539
		8,068,435	3	10	8,875,223

Receipts.	Amount Received to June 30, 1908. £	s.	d.	Amount Received during Half-year. £	s.	d.	Total. £	s.	d.
Consolidated Stocks	76,030,420	10	0	438,780	0	0	76,469,200	10	0
Debenture Stock	29,723,431	0	0	9	0	0	29,723,440	0	0
Premiums on Issue of Stock and Shares	9,987,587	19	9	*Dr. 293*	*6*	*0*	9,987,294	13	9
£	115,741,439	9	9	438,495	14	0	116,179,935	3	9
By Balance							2,627,127	12	10
						£	118,807,062	16	7

year ending December 31, 1908 Cr.

	Class.	Numbers. 1907.	1908.		£	s.	d.	Dec. 31, 1907. £
By Traffic, viz. Passengers...	First	743,394	693,877	£264,188 8 4				273,130
	Second	2,384,442	2,249,495	290,227 17 11				292,783
	Third	41,875,094	40,857,982	2,125,088 6 11				2,099,020
	Season	78,470	78,632	202,147 5 2				197,647
				2,881,651 13 4				2,862,580
Parcels, Horses, Carriages, and Dogs				647,134 4 10				643,655
Mails				108,747 13 8				108,278
					3,637,533	11	5	3,614,463
Merchandise £2,421,566 15 1								2,631,977
Less Expenses of Collection and Delivery of Goods by Agents 34,506 6 9								43,191
				2,387,060 8 4				2,588,786
Live Stock				128,277 6 1				145,385
Minerals				1,764,314 3 1				1,878,702
					4,279,651	17	6	4,612,873
					7,917,185	8	11	8,227,336
,, Transfer Fees					880	5	0	902
,, Rents of Land and Buildings				179,166 19 10				176,620
Less Repairs and Sundries				28,747 9 11				29,635
					150,419	9	11	146,985
				£	8,068,485	3	10	8,375,223

LONDON AND NORTH

[No. 10]

NET REVENUE ACCOUNT,

Dr.

		£	s.	d.	Dec. 31, 1907.
To Interest on Debenture Stock	£585,125 11 11				£585,125
Less Amount charged to Leased Lines	32,331 3 4				32,402
		552,794	8	7	552,723
,, Chief Rents and Interest on Land Purchases	14,972 17 7				17,770
,, Shropshire Union Railways and Canal Lease	24,104 1 11				20,600
,, West London Railway Lease	450 0 0				450
,, Birkenhead Railway Lease	30,749 11 2				30,749
,, Shrewsbury and Hereford Railway Lease	12,625 0 0				12,625
,, North and South-Western Junction Ry. Lease	1,583 13 4				1,584
,, Birmingham Canal Agreement	19,070 2 6				13,019
,, Portpatrick and Wigtownshire Railway	864 0 7				935
,, General Interest	37,613 7 2				38,406
		142,032	14	3	
,, General Reserve					50,000
		694,827	2	10	738,861
,, Balance available for Dividend		2,408,299	1	11	2,499,437
	£	3,103,126	4	9	3,238,298

Dr. [No. 13]

GENERAL BALANCE SHEET,

	£	s.	d.
To Net Revenue Balance, as per Account No. 10	2,408,299	1	11
,, Unpaid Dividend and Interest	12,990	5	10
,, Guaranteed Dividend and Interest accruing and provided for	83,839	0	1
,, Interest on Debenture Stock accruing and provided for	585,125	11	11
,, Balance due to other Companies	72,863	2	3
,, Sundry Outstanding Accounts	1,878,694	1	7
,, Insurance Fund	442,649	14	3
,, Superannuation Fund	1,482,567	8	10
,, Widows' and Orphans' Fund	194,894	1	5
,, Savings Bank	696,979	0	1
,, Clerks' Guarantee Fund	4,618	1	8
,, Insurance and Provident and Pension Societies	269,901	3	3
,, Steamboat Depreciation and Insurance Account	515,298	18	8
,, General Reserve	100,000	0	0
	£8,748,719	11	9

WESTERN RAILWAY

December 31, 1908

Cr.

				£	s.	d.	Dec. 31, 1907. £
By Disposable Balance, June 30 last £1,935,028	13	1					
Less Dividend ordered August 14 1,838,061	11	11					
				96,967	1	2	133,385
„ Balance of Revenue Account				2,936,327	19	10	3,021,539
„ Dividends on Shares							
North London ....to June 30 last	23,252	15	6				
Manchester and South Junction „ „	16,734	8	8				
Shropshire Union................ „ „	3,920	11	8				
West London Extension....... „ „	3,977	8	5				
Cockermouth and Penrith.... „ „	281	5	0				
Great Southern and Western „ „	1,681	4	6				
Dublin and South-Eastern... „ „	1,740	0	0				
Callander and Oban............ to July 31 last	1,125	0	0				
Harborne	250	0	0				
	52,962	13	9				
Estimated this Half-year	54,073	0	0				
	107,035	13	9				
Ditto last Half-year	52,442	0	0				
	54,593	13	9				68,136
„ Great Western Railway. Moiety of Shrewsbury and Welshpool and Vale of Towy Dividends	3,750	0	0				3,750
„ Furness Railway. Moiety of Whitehaven, Cleator and Egremont Dividend	11,487	10	0				11,488
				69,831	3	9	
			£	3,103,126	4	9	3,238,298

December 31, 1908

Cr.

	£	s.	d.
By Capital Account Balance, as per Account No. 4	2,627,127	12	10
„ Cash at Bankers—Current Account	2,027,771	8	3
„ Amount of Securities in Company's hands..................................	42,463	19	2
„ General Stores stock of materials	1,647,185	12	2
„ Traffic Accounts due to the Company	1,494,541	19	8
„ Balance due from other Companies...	207,829	11	3
„ Ditto Clearing House	163,550	8	3
„ Ditto Post Office	65,574	3	11
„ Sundry Outstanding Accounts...	356,801	8	0
„ Suspense Account, rebuilding Stations.....................................	76,006	8	3
„ Dividends to be received on Shares held by Company....................	39,867	0	0
	£8,748,719	11	9

The accounts of the London and North-Western Railway Company for the half-year ended December 31, 1908, afford a good example of the form in which the accounts of British Railways are presented to the shareholders.

The accounts here reproduced are those which form the complete statements of the Company's earnings and financial position. In addition to the accounts set out above, various statements are published in accordance with the terms of the statute as follows—

1. Capital Authorized and Created by the Company.
2. Stock and Share Capital created, showing the proportion received.
3. Capital raised by Loans and Debenture Stock.
5. Details of Capital Expenditure for the half-year ended December 31, 1908.
6. Returns of Working Stock (Engines, Coaches, Wagons, etc.).
7. Estimate of Further Expenditure on Capital Account.
8. Capital Powers and other Assets available to meet Further Expenditure.
11. Proposed Appropriation of Balance available for Dividend.
12. Abstracts. (Details of Expenditure, the totals of which appear in the Revenue Account, on Maintenance of Way, Locomotive Power, Repairs, Stores, Traffic Expenses, General Charges, Steamboat Expenses, and Steamboat Depreciation and Insurance.)
14. Mileage Statement.
15. Statement of Train Mileage.

It will be noted that the above Statements are divided into Capital (Nos. 1, 2, 3, 4, 5 and 13) and Revenue (Nos. 9, 10, 11, 12). Statements Nos. 6, 7 and 8, being of a statistical nature, are merely subsidiary.

The statutory form in which the accounts of Railways are published every half-year is that prescribed by the Regulation of Railways Act, 1868.

The above Statements afford a good illustration of a set of accounts kept upon the "Double Account System."

Undertakings to which the Double Account System is suitable are those which, by their uses and objects, are assumed to be of a *permanent* nature, and Railways are of this class.

The student will note that the Balance Sheet is divided into two portions, viz. "No. 4, Receipts and Expenditure on Capital Account," and "No. 13, General Balance Sheet." In the former of these two accounts the total amount expended in the purchase and construction of the Company's "Fixed" Assets such as Land, Permanent Way, Rolling Stock, etc., is set out on the debit side, and upon the credit side appear details of the various classes of Share and Debenture stocks issued to the public in order to meet the expenditure appearing upon the other side of the account. The balance of this account, £2,627,127 12*s.* 10*d.*, shows the amount by which the Capital Expenditure has exceeded the Capital raised, and is carried forward to the second part of the Balance Sheet (Account No. 13). In this latter account appear the Company's "floating" Assets such as Cash, Stores, Book Debts, and so on. On the Liabilities side of the General Balance Sheet appear the outstanding debts due to creditors of various classes, and various Insurance, Depreciation, and Provident Reserve Funds. Under

the Double Account System no direct depreciations can be written off the Assets comprised in the Company's property, which remain permanently at their initial cost in Account No. 4, as shown above; the student must not, however, assume that it is neither possible nor necessary to provide for depreciation in accounts prepared under the Double Account System. Depreciation can be, and frequently is, provided for by means of debit charges in the Revenue Account, which are credited to appropriate Reserve Accounts and there left to accumulate. It does not necessarily follow that such Reserve accounts are set out separately in the General Balance Sheet. The item "Sundry Outstanding Accounts" may, and frequently does, cover one or more Reserve Accounts created for necessary purposes. Various Suspense accounts are also frequently created, though not necessarily set out separately in the Balance Sheet; for example, the repairs executed in the "dry" half-year are usually largely in excess of those which it is possible to execute in the "wet" half-year, and expenditure of this nature is therefore usually equalized, as between the half-years, by means of a Suspense Account.

It would appear that the Legislature does not *require* such companies as are compelled by Statute to adopt the Double Account System, to make any provision for Depreciation in view of the permanence of the undertaking—the principle of the statutory forms of accounts being that a clear statement shall be provided in order to show that all capital moneys provided for the construction of certain works have been used for that purpose only, and that once constructed, such works shall be kept in proper repair out of Revenue. The fact remains, however, that, as a matter of financial prudence, such reserves and provisions as seem advisable are frequently made.

The various wasting Assets employed by Railway Companies are maintained and repaired out of Revenue, and all replacements are also charged to Revenue, often upon a generous scale, but it cannot be denied that wastage still exists in connection with such Assets as do not yet need renewal, a fact which is recognized, in the accounts under review, by the provision of a Steamboat Depreciation Account.

The Revenue Account is divided into three sections, much in the same manner as the Profit and Loss Account of a commercial undertaking is arranged. The first portion (No. 9, Revenue Account) shows the gross traffic receipts, and the outgoings chargeable against them. The balance of this account represents the Gross Profit for the half-year, and is carried forward to the Net Revenue Account (No. 10), wherein all the Company's revenue from outside sources is set forth, together with the balance brought forward from the last period, all interests and other fixed charges are debited against this account, and the balance (net profit) is carried forward to Appropriation Account (No. 11), not printed above, in which the proposed division of the available balance is shown. Before such appropriation can be carried out the sanction of the shareholders is, of course, necessary.

Dr. **BALANCE SHEET,**

CAPITAL AND LIABILITIES.				£	s.	d.
Capital—						
(a) 1,000,000 Cumulative 5 per cent. Preference Shares of £1 each			£1,000,000 0 0			
(b) 1,000,000 Ordinary Shares of £1 each, per Balance Sheet at March 14, 1908		£1,000,000 0 0				
Add 250,000 Ordinary Shares of £1 each, issued in July 1908		250,000 0 0				
		1,250,000 0 0				
Less Calls in arrear on 79 Shares of new Issue		65 15 0				
			1,249,934 5 0			
				2,249,934	5	0
Debenture Stock, bearing 4 per cent. Interest				500,000	0	0
Bills Payable				212,982	0	5
Overdraft from Bank				393,745	4	4
Sundry Creditors and Directors' Fees				241,960	9	4
Savings Bank Deposits and Interest accrued thereon				67,321	8	7
Unclaimed Dividends				2,049	19	8
Interest on Debenture Stock accrued at date				8,965	0	11
Premium on Shares Account—						
5s. per Share on 666,667 Shares of original Issue		£166,666 15 0				
5s. per Share on 250,000 Shares of new Issue	£62,500 0 0					
Less Expenses of new Issue	8,277 17 9					
		54,222 2 3				
			220,888 17 3			
Reserve Account			145,000 0 0			
				365,888	17	3
Profit and Loss Account—						
Balance brought from previous year		£20,264 16 3				
Profit for period ending March 20, 1909, as per Account		162,726 5 2				
			182,991 1 5			
Deduct—(a) Interest on Debenture Stock for year		£20,000 0 0				
(b) Interim Dividend on Preference Shares paid Sept. 30, 1908		25,000 0 0				
(c) Interim Dividend on original Ordinary Shares paid Nov. 9, 1908		30,000 0 0				
(d) Interim Dividend on new Ordinary Shares paid Nov. 9, 1908		1,171 17 6				
			76,171 17 6			
				106,819	3	11
				£4,149,666	9	5

Dr. **PROFIT AND LOSS ACCOUNT, for the Period from**

	£	s.	d.
To Expenses of Management, including Salaries, General Charges, Head Office Expenses, Auditors' Fees, Transfer Office Expenses, Savings Bank Expenses and Advertising	147,715	16	4
,, Bad Debts	2,164	4	7
,, Interest on Savings Bank Deposits	413	15	11
,, Depreciation on Plant, Fittings, Fixtures, Utensils, etc., at Stores, Head Office, and Branches, and in Ceylon; also Provision for Depreciation of Leaseholds	38,963	3	10
,, Directors' Fees	6,200	0	0
,, Fees to Trustees for Debenture Holders	630	0	0
,, Balance carried to Balance Sheet, being Profit for the above period	162,726	5	2
	£358,813	5	10

as at March 20, 1909 — Cr.

Assets.			£	s.	d.
Goodwill of the Business, Freehold and Leasehold Properties, and Freehold Estates in Ceylon.					
Amount per Balance Sheet at March 14, 1908, at Cost, less amounts written off for Depreciation	£1,834,295 6 0				
Additional Capital Expenditure during year	12,111 8 5				
		1,846,406 9 5			
Less written off for Depreciation and Lease Redemption during year		4,354 12 11			
			1,842,051	16	6
Plant, Machinery, Fixtures, Fittings, Utensils, Carts, Horses, etc.—					
Amount per Balance Sheet at March 14, 1908	£309,647 5 0				
Additions during year at Branches	170,166 13 3				
Additions during year at Stores, Factories, etc.	61,524 14 11				
		541,338 13 2			
Less written off for Depreciation during year		34,608 10 11			
			506,730	2	3
Stocks-in-Trade			1,290,628	6	10
Sundry Debtors			256,147	14	0
Insurances unexpired and other items paid in advance, including £30,000 of advertising outlay carried forward			80,155	14	8
Investments at Cost and Interest, etc., accrued thereon (Market Value, £101,587 8s. 10d.)			104,277	10	9
Cash at Bank and on hand			69,675	4	5
			£4,149,666	9	5

15th March, 1908, to 20th March, 1909, inclusive — Cr.

	£	s.	d.
By Profit on Trading at Stores and Branches (after deducting Wages and Working Expenses) and Profits from Estates in Ceylon	353,315	9	8
,, Transfer Fees	883	11	2
,, Interest, etc., on Investments	4,614	5	0
	£358,813	5	10

The Statements reproduced on pages 446 and 447 are the annual accounts for the year ended March 25, 1909, of Lipton, Ltd., the well-known firm of multiple shop proprietors.

The student will notice that, whereas the Balance Sheet contains full details, the Profit and Loss Account is published in a condensed form and does not afford trade rivals much information that can be made use of. The gross profit (£353,315 9*s.* 8*d.*) brought from the Trading Account is arrived at prior to charging the expenses of management (£147,715 16*s.* 4*d.*) as set out on the debit side of the account. The "Interest on Savings Bank Deposits" is an unusual item, and is due to the fact, as displayed in the Balance Sheet, that deposits, on Savings Bank terms, are received by the firm. The account is closed by the item "Balance carried to Balance Sheet, being profit for the above period, £162,726 5*s.* 2*d.*" In the author's opinion this is not a happy entry. The Profit and Loss Account is a Ledger Account into which the items appearing therein have been closed. The Balance Sheet is a schedule of the remaining Ledger balances, and no account under this name exists in the Ledger, and therefore no balance can be carried to it. In preparing accounts for examination purposes, the student will be wise to carry down the balance shown by the Profit and Loss Account, and show it as it really is, viz. an open balance to be subsequently dealt with.

Turning to the Balance Sheet it would have been better if the "Sundry Creditors" and "Bills Payable" had been entered "short," and extended in one total showing the amount owing to the outside Trade Creditors. The item "Insurances unexpired and other items paid in advance, £80,155 14*s.* 8*d.*," includes "advertising outlay, £30,000." This amount represents a portion of the advertising expenses incurred during the period the advantages expected to be derived from which are estimated to extend over future years. The item is of quite a usual nature in the accounts of companies whose expenditure upon advertising reaches large proportions and is, of course, quite legitimate in principle.

The item of greatest magnitude on the Assets side of the Balance Sheet is that of £1,842,051 16*s.* 6*d.*, representing the book value of (1) the Goodwill of the Business; (2) the Freehold and Leasehold Properties; and (3) the Freehold Estates in Ceylon. The total here inserted might with advantage have been subdivided between these three dissimilar types of asset, especially in order that the proportion of the purchase price which was paid for the intangible asset "Goodwill" might appear. In all probability the cost to the Company of the Goodwill of the vast undertaking acquired by it forms a large proportion of the total given above. The amount of £4,354 12*s.* 11*d.* written off the total of the fixed assets, amounting to £1,846,406 9*s.* 5*d.*, can hardly be described as excessive, although it is doubtless adequate in the special circumstances of the case.

The Investments, appearing in the Balance Sheet at £104,277 10*s.* 9*d.*, are stated in a marginal note as being of the market value of £101,537 8*s.* 10*d.* This method of stating investments affords complete information to the shareholder, and is to be commended.

A. & F. Pears, Ltd.

STATEMENTS OF ACCOUNT

FOR THE YEAR ENDED

JUNE 30th, 1908.

A. & F. PEARS,

BALANCE SHEET,

Dr.

		£	s.	d.
To Share Capital Authorized and Subscribed—				
20,000 Six per cent. Cumulative Preference Shares of £10 each, fully paid	£200,000 0 0			
320,000 Ordinary Shares of £1 each, fully paid	320,000 0 0			
	520,000 0 0			
„ Debenture Stock (5 per cent.)	200,000 0 0			
		720,000	0	0
„ Sundry Trade Creditors		24,331	18	6
„ Interest on Debenture Stock, half-year to date		5,000	0	0
„ Special Reserve Fund		5,702	11	11
„ Reserve Fund		58,500	0	0
„ Depreciation and Leasehold Redemption Fund—				
As at June 30, 1907	90,767 2 6			
Less Amount written off	97 14 4			
	90,669 8 2			
Further provision during the year	3,642 4 8			
		94,311	12	10
„ Unclaimed Dividends		375	8	1
„ Profit and Loss Account—				
Balance at Credit, as below	57,420 14 3			
Profit undivided 1906–1907	6,414 19 0			
	63,835 13 3			
Deduct—				
Interest on Debenture Stock £10,000 0 0				
Interim Dividend on Preference Shares 6,000 0 0				
Ditto Ordinary Shares 12,800 0 0				
	28,800 0 0			
		35,035	13	3
		£943,257	4	7

PROFIT AND LOSS ACCOUNT,

Dr.

		£	s.	d.
1908.				
June 30	To Salaries, Rent, Rates, Taxes, Fire Insurance, Foreign Agencies, Repairs and Renewals, and General Expenses, Advertising, Directors' and Auditors' Fees, and Fees to Trustees for Debenture Holders	102,157	15	5
„ 30	„ Depreciation and Leasehold Redemption Fund	3,642	4	8
„ 30	„ Balance carried to Balance Sheet	57,420	14	3
		£163,220	14	4

The student will note that the Profit and Loss Account of the well-known soap manufacturers (A. & F. Pears, Ltd.) is presented on much the same lines as the preceding accounts (Lipton, Ltd.), the inadvisability of supplying too many details to trade rivals doubtless influencing the form of these accounts in like manner. The Balance Sheet is also presented in similar fashion, and contains considerable detail.

As has been indicated previously there appears to be no legal obligation to depreciate "Goodwill" (Wilmer *v.* M'Namara), but the student will note that, in the accounts under review, an amount of £90,000 has been written off this item. During the period covered by the accounts, Deferred Ordinary shares amounting to £150,000 were converted into 60,000 Ordinary shares of £1 each

LIMITED

made up to June 30, 1908

				£	s.	d.
By Goodwill of the Business in this Country, United States of America, Australia, and elsewhere, Freehold Land and Buildings, Leasehold Premises, Plant, Furniture, Fittings, and Works of Art, as at June 30, 1907	£602,936	15	5			
Less Goodwill written down as explained in the Directors' Report	90,000	0	0			
	512,936	15	5			
Expended during the year	1,721	9	10			
				514,658	5	3
,, Trade and other Debtors	42,191	10	7			
,, Bills Receivable	12,605	2	1			
				54,796	12	8
,, Stock-in-Trade, including Advertising Stock, Horses, Vans, etc., as per Inventories				185,731	4	7
,, Cash at Bankers on Deposit and Current Account, and in hand				55,280	9	8
,, Investments (at cost) viz.—£70,000 2½ per cent. Consols. £30,000 2½ per cent. Metropolitan Consolidated Stock. £27,760 The Company's 5 per cent. Debenture Stock. (There is at present a Depreciation in the Market Value of these Securities amounting on balance to £15,163.)				132,790	12	5
				£943,257	4	7

for **the year ended 30th June, 1908**

		£	s.	d.
1908. June 30	By Balance of Trading Account after making provision for Bad and Doubtful Debts	158,135	4	2
,, 30	,, Interest on Investments, and on Cash on Deposit	5,085	10	2
		£163,220	14	4

and the £90,000 liability thus released was wisely used to reduce the item, Goodwill.

"Investments at cost, £132,790 12*s*. 5*d*.," are qualified by the note that depreciation (at present market values) exists to the extent of £15,163. It has been previously stated (Chapter X) that, in cases of this sort, it is usual to ignore market fluctuations unless the depreciation is believed to be permanent, and in any case this Company possesses ample reserves with which to meet the depreciation.

The student will note that, as is frequently the case, the interest and dividends payable out of profits are deducted from the balance of the Profit and Loss as shown in the Balance Sheet, instead of in the Profit and Loss Account itself.

THE IMPERIAL TOBACCO CO. (OF GREAT

BALANCE SHEET,

Dr.

			£	s.	d.
To Capital Authorized—					
6,000,000 5½ per cent. Cumulative Preference Shares		£6,000,000 0 0			
6,000,000 6 per cent. Non-Cumulative Preferred Ordinary Shares		6,000,000 0 0			
6,000,000 Deferred Ordinary Shares		6,000,000 0 0			
		£18,000,000 0 0			
,, Capital Issued—					
4,959,249 5½ per cent. Cumulative Preference Shares			4,959,249	0	0
5,260,469 6 per cent. Non-Cumulative Preferred Ordinary Shares			5,260,469	0	0
5,276,436 Deferred Ordinary Shares			5,276,436	0	0
			15,496,154	0	0
,, 4½ per cent. First Mortgage Debenture Stock (Repayable at the Company's option by six months' notice at any time after 31st December, 1911, at £105 per £100)			2,065,011	0	0
,, Provision for Premium of 5 per cent. payable on Redemption of Debenture Stock			103,250	0	0
,, Accrued Interest on Debenture Stock			29,095	6	8
,, Creditors and Credit Balances			937,161	11	2
,, Bills payable and Drafts in transit			166,857	11	1
,, Provision for Pensions, etc.			407,939	14	7
,, General Reserve Account			1,500,000	0	0
,, Profit and Loss Account—					
Net Trading Profit and Transfer Fees		£2,065,616 7 8			
Less—					
Interest Management Remuneration, etc.	£246,868 8 0				
Provision for Pensions, etc.	100,000 0 0				
Amount written off Freeholds, in addition to normal depreciation	100,000 0 0				
Transfer to General Reserve	250,000 0 0				
		696,868 8 0			
Balance for the year (per Profit and Loss Account)		1,368,747 19 8			
Balance on 31st October, 1907, after deducting Customers' Bonuses to that date		127,578 10 9			
		1,496,326 10 5			
Deduct: Interim Dividends paid—					
On 5½ per cent. Cumulative Preference Shares	136,379 7 0				
On 6 per cent. Non-Cumulative Preferred Ordinary Shares	157,814 1 5				
		294,193 8 5	1,202,133	2	0
			£21,907,602	5	6

MEMO.—(*a*) There are Contingent Liabilities of the nature of Guarantees of Dividends on Shares.
(*b*) There is an uncalled Liability on Investments held of £132,625.

BRITAIN AND IRELAND), LTD.

October 31, 1908 Cr.

	£	s.	d.
By Land, Buildings, Plant and Machinery, *less* Amounts written off....	2,060,518	5	8
" Goodwill and Patent Rights....	9,445,704	16	11
" Investments in, and Loans to Associated Companies....	1,636,028	6	5
" Stock-in-Trade, at or under cost....	4,076,107	19	1
" Debtors, *less* Reserve for Discounts and Doubtful Debts....	1,442,912	7	7
" Payments on account of Leaf in transit, unexpired Insurances, etc...	120,279	10	8
" Bills Receivable....	1,516	15	4
" Investments in Government, County Council and Corporation Stocks and Debentures, Railway Debenture and Preference Stocks—valued at published prices....	2,150,083	12	9
" Cash at Bankers on Deposit and Current Account, and in hand....	974,450	11	1
	£21,907,602	5	6

in two Associated Companies.

THE IMPERIAL TOBACCO CO. (OF GREAT

Dr. PROFIT AND LOSS ACCOUNT,

	£	s.	d.
To Directors' and Trustees' Fees and Management Remuneration	96,855	8	8
,, Interest paid and accrued on Debenture Stock	87,762	19	4
,, Reserve for Income Tax	62,250	0	0
	246,868	8	0
,, Provision for Pensions	100,000	0	0
,, Amount written off Freeholds in addition to normal depreciation	100,000	0	0
,, Transfer to General Reserve Account	250,000	0	0
,, Balance carried to Balance Sheet	1,368,747	19	8
	£2,065,616	7	8

Dr. APPROPRIATION

				£	s.	d
To Dividends upon 5½ per cent. Cumulative Preference Shares—						
Interim Dividend to April 30, 1908, paid August 1, 1908	£136,379	7	0			
Half-year's Dividend to October 31, 1908, paid February 1, 1909	136,379	7	0			
				272,758	14	0
,, Dividends upon Ordinary Shares—						
On 6 per cent. Non-Cumulative Preferred Ordinary Shares—						
Interim Dividend to April 30, 1908, paid September 1, 1908	£157,814	1	5			
Half-year's Dividend to October 31, 1908, payable March 1, 1909	157,814	1	5			
On Deferred Ordinary Shares—						
Proposed Dividend of 10 per cent. for the year (free of Income Tax)	527,632	7	4			
Proposed Bonus of 2 per cent. for the year (free of Income Tax)	105,526	9	6			
				948,786	19	8
,, Bonus to Customers for the half-year to April 30, 1908, paid January 15, 1909				73,999	9	5
,, Balance to be carried to next Account (including Reserve for Bonus to Customers, half-year ended October 31, 1908)				200,781	7	4
				£1,496,326	10	5

The published accounts of the Imperial Tobacco Company are framed upon much the same lines as those of the trading companies previously referred to in this chapter, and the inadvisability of publishing details which may be of assistance to competitors again appears to have been borne in mind.

In these accounts an Appropriation Account is shown, in addition to the Profit and Loss Account, and in this Appropriation Account the somewhat unusual item of a Bonus distributed to *Customers* appears—the Imperial Tobacco Company being one of the few companies which make any distribution out of profits to the retailers supplied by them. The provisions for depreciation, pensions and addition to Reserve, set forth in the Profit and Loss Account, appear to be full, and, of course, add to the stability of the undertaking.

BRITAIN AND IRELAND), LTD.

for the year ended October 31, 1908 Cr.

	£	s.	d.
By Net Trading Profit and Interest and Dividends on Investments (including Dividends from Companies operating outside the United Kingdom), Loans and Bank Deposits, after providing for Depreciation of Buildings, Plant, Machinery and Investments, etc., Working Expenses, Head Office and Registration Charges....	2,065,005	13	2
,, Transfer and other Fees........	610	14	6
	£2,065,616	7	8

ACCOUNT Cr.

					£	s.	d.
By Balance from last Account........	£208 297	17	4				
Less Bonuses to Customers paid thereout........	75,719	6	7		127,578	10	9
,, Balance from Profit and Loss Account for the year........					1,368,747	19	8
					£1,496,326	10	5

The Balance Sheet is remarkable for the large book value of the Goodwill and Patent rights (£9,445,704 16*s.* 11*d.*). The whole of the Deferred Ordinary Shares and practically the whole of the Preferred Ordinary Shares can only be taken to be represented by the intangible assets, Goodwill and Patent rights. In the case, however, of a gigantic undertaking such as this under review, possessing in addition what closely approximates to a practical monopoly, such a valuation of Goodwill is, presumably, not excessive.

The item of Investments in Gilt Edged Securities (over £2,000,000) is large, and doubtless points to an early redemption of the Debenture debt.

THE MALAY STATES TOBACCO PLANTATIONS, LIMITED

1907 CROP COST ACCOUNT

Dr. | Cr.

1908.			£	s.	d.	1908.		£	s.	d.
Dec. 31	To Plantation Expenses—					Dec. 31	By Proceeds of Sale of Tobacco	84,596	16	4
	Coolie Brokerage and Passage Money	£4,838 2 6								
	Hospital Expenses.................	1,429 3 2								
	General Expenses	2,107 0 5	7,874	6	1					
" 31	" Plantation Wages—									
	Planting Wages	£16,853 4 8								
	Manufacturing Wages	5,208 3 6	22,061	8	2					
" 31	" Plantation Salaries—									
	European Staff.......................	£8,421 6 4								
	Native Overseers	2,741 10 4								
	Watchmen	1,010 0 10	12,172	17	6					
" 31	" Replacements and Repairs—									
	Buildings and Granges............	£4,927 4 10								
	Ways and Roads	2,101 10 6								
	Railway	237 8 9								
	Steam Launch	367 8 4								
	Lighters	122 10 2								
	Pier..	346 11 11	8,102	14	6					
" 31	" Loss by death of Coolies		1,228	10	4					
" 31	" Commission on Crop to European Staff..........		5,098	4	6					
" 31	" Balance, being gross profit carried to Profit and Loss Account		28,058	15	3					
			£84,596	16	4			£84,596	16	4

THE MALAY STATES TOBACCO PLANTATIONS, LIMITED

PROFIT AND LOSS ACCOUNT, for the year ended December 31, 1908

Dr.									Cr.
1908.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To London Office Expenses, Salaries, Audit Fee, etc. £1,624 2 4				Dec. 31	By Balance from Crop Cost Account	28,058	15	8
,, 31	,, Directors' Fees 1,500 0 0				,, 31	,, Transfer Fees	7	10	0
		3,124	2	4	,, 31	,, Interest Account	521	2	4
,, 31	,, Income Tax	1,009	10	4					
,, 31	,, Depreciation on London Office Furniture	3	2	0					
,, 31	,, Balance carried down, being net profit for the year	24,450	12	11					
	£	28,587	7	7		£	28,587	7	7
		£	s.	d.			£	s.	d.
1908. Dec. 31	To Interim Dividend paid Nov. 5, 1908	5,662	10	2	1908. Dec. 31	By Balance brought from last account £9,462 15 8 *Less* Final Dividend paid June 10, 1908 .... 5,662 10 2	3,800	5	6
,, 31	,, Transfer to Reserve Fund	5,000	0	0	,, 31	,, Balance brought down, being net profit for the year	24,450	12	11
,, 31	,, Balance carried down	17,588	8	3					
	£	28,250	18	5		£	28,250	18	5
					1908 Dec 31	By Balance brought down	17,588	8	3

THE MALAY STATES TOBACCO PLANTATIONS, LIMITED

BALANCE SHEET, December 31, 1908

Dr.

				£	s.	d.
To Nominal Capital—						
150,000 Shares of £1 each	£150,000	0	0			
,, Subscribed Capital—						
125,000 Shares of £1 each	£125,000	0	0			
Less unpaid calls	500	0	0			
				124,500	0	0
,, Reserve Account—						
As per last Balance Sheet	£35,000	0	0			
Added this year	5,000	0	0			
				40,000	0	0
,, Sundry Creditors				12,941	12	6
,, Bills Payable				38,000	0	0
,, Profit and Loss Account (Balance)				17,588	8	3
				£233,030	0	9

Cr.

				£	s.	d.
By Plantations Account				110,000	0	0
,, Furniture in London	£41	6	3			
Less Depreciation	3	2	0			
				38	6	3
,, Sundry Debtors				10,941	10	6
,, Plant, Loose Tools, etc.—						
As per Valuation December 31, 1907	£4,201	10	2			
Additions during the year	3,281	10	1			
	7,483	0	3			
Less Amount written off as per Valuation, December 31, 1908	3,210	0	3			
				4,273	0	0
,, Expenditure to date on 1908 Crop				64,450	18	6
,, Investments at Cost				29,132	9	0
,, Cash at Bank	£14,140	10	2			
,, ,, in hand	53	6	4			
				14,193	16	6
				£233,030	0	9

The annual statements of the Malay States Tobacco Plantations, Ltd., offer a good example of the accounts published by an English company owning and working a plantation abroad.

The tobacco crop is not ready for shipment until the close of the year, and does not reach Amsterdam (the tobacco market of Europe) for sale before May in each year. This fact leads to the somewhat unusual position disclosed in the accounts under review. The student will note that the "Crop Cost Account" deals with the crop of the previous year (1907) which, during the year 1908, reached Europe and was sold for £84,596 16*s.* 4*d.* The tobacco is sold outright by auction and tender, so that there are no stocks to be dealt with in the accounts.

Reference to the Balance Sheet will disclose an item: "*Expenditure to date on* 1908 *Crop*, £64,450 18*s.* 6*d.*" This represents the cost of the "1908 Crop" up to December 31, 1908, and is, in fact, within a short amount of the final total cost of the crop which, by this date, is in the drying sheds. As this amount entirely represents expenditure relative to the crop which is to be sold for the benefit of the coming year's accounts, it is carried forward as an asset in suspense so far as the current accounts are concerned. In due course, when the expenditure upon the tobacco is complete, the whole amount will be transferred to the "1908 Crop Cost Account."

It will be noted that the Crop Cost Account practically takes the form of a Trading Account, and contains the whole of the expenditure, upon the plantation, of the moneys remitted from this country to the Company's manager in the East. The "*Replacements and Repairs*, £8,102 14*s.* 6*d.*," will appear to be heavy at first sight, but it is the usual practice of all companies of this character to charge all building and other kindred expenditure against the revenue of the year. The tropical climate, white ants, and other causes render the life of the wooden or rattan erections in general use of short duration only, and expenditure of this nature is therefore very rarely capitalized unless unusually heavy in amount, in which case it is spread over a term of years. It is not uncommon among tea-planters —in India especially—to treat Machinery and Plant in the same manner. In these cases, therefore, the "Plantation Account," "Estate Account," or "Block Account," appearing in the Balance Sheet, as representing the chief asset, remains at a fixed figure from year to year.

The "*Loss by death of Coolies*, £1,228 10*s.* 4*d.*," arises from the fact that the labour used on the plantation is imported, and upon leaving home an advance is made to Coolies and treated as a loan to be worked off in labour subsequently. When Coolies die, therefore, any sums still to their debit on "Advance Account" become a loss to the Company and must be written off as such.

The Profit and Loss Account deals with the London expenditure of the Company, including the dividends paid, and is self-explanatory.

Reference to the Balance Sheet will show that this is a case where the Plantations Account is maintained at a fixed figure, no additions having been capitalized during the year.

The "*Sundry Debtors*, £10,941 10*s.* 6*d.*," is almost entirely composed of "Advances to Coolies," and, as previously explained, does not contain any outstanding accounts for tobacco sales, which are "Cash Sales" to all intents and purposes.

The remaining items in the Balance Sheet do not require explanation.

Dr. **PROFIT AND LOSS ACCOUNT,**

1908.			£	s.	d.
Dec. 31	To Counsels' Fees		3,650	6	6
" 31	" Disbursements (made on behalf of Clients and charged in bills as per Contra)		8,485	10	6
" 31	" Stationery on behalf of Clients		1,095	8	6
" 31	" Shorthand Writers on behalf of Clients		140	9	8
" 31	" Advertising on behalf of Clients		109	16	9
" 31	" Balance carried down		23,450	9	4
			£36,932	1	3
1908.					
Dec. 31	To Salaries of Staff		6,844	19	6
" 31	" Housekeeping, Coal, Gas, Water and Rates, etc.		568	10	2
" 31	" Office Expenses and Incidentals		639	16	6
" 31	" Office Stationery		394	16	9
" 31	" Rent		700	0	0
" 31	" Certificate Duty		83	10	0
" 31	" Accountants' Charges		100	0	0
" 31	" Allowances and Bad Debts		309	10	6
" 31	" Proportion of Lease Account written off		300	0	0
" 31	" Balance carried down		14,525	0	8
			£24,466	4	1
1908.					
Dec. 31	To Mr. Jameson—				
	Interest on Capital	£300 0 0			
	Share of Profit	5,530 0 4			
			5,830	0	4
" 31	" Mr. Conway—				
	Interest on Capital	£250 0 0			
	Share of Profit	4,147 10 4			
			4,397	10	4
" 31	" Mr. Phelps—				
	Interest on Capital	£150 0 0			
	Share of Profit	4,147 10 0			
			4,297	10	0
			£14,525	0	8

Dr. **BALANCE SHEET,**

1908.			£	s.	d.
Dec. 31	To Partners' Capital Accounts—				
	Mr. Jameson	£6,000 0 0			
	Mr. Conway	5,000 0 0			
	Mr. Phelps	3,000 0 0			
			14,000	0	0
" 31	" Partners' Drawing Accounts—				
	Mr. Jameson	£2,100 0 0			
	Mr. Conway	1,850 0 0			
	Mr. Phelps	1,520 0 0			
			5,470	0	0
" 31	" Sundry Creditors—				
	Sundry Clients	£3,200 10 2			
	Counsels' Fees unpaid	2,840 11 0			
	Parliamentary Disbursements	3,800 11 2			
	Sundry Persons	450 10 1			
			10,292	2	5
			£29,762	2	5

for the year ended December 31, 1908 Cr.

1908.			£	s.	d.
Dec. 31	By Costs charged out to Clients (including Disbursements as per Contra made on behalf of Clients charged in Bills)—				
	Chancery	£5,641 10 2			
	Common Law	3,261 5 9			
	Parliamentary	9,962 16 8			
	Agency	17,896 10 4			
			36,762	2	11
„ 31	„ Copies of Documents supplied		169	18	4
			£36,932	1	3
1908.					
Dec. 31	By Balance brought down		23,450	9	4
„ 31	„ Premiums from Articled Clerks		500	0	0
„ 31	„ Interest and Commission		125	14	9
„ 31	„ Rents (Sublettings)		240	0	0
„ 31	„ Directors' Fees earned by the Partners		150	0	0
			£24,466	4	1
1908.					
Dec. 31	By Balance brought down		14,525	0	8
			£14,525	0	8

December 31, 1908 Cr.

1908.			£	s.	d.
Dec. 31	By Premium on Lease Account, as on Dec. 31, 1907	£920 0 0			
	Less Amount written off	300 0 0			
			620	0	0
„ 31	„ £200 Consols (Stamp Duties, Investment) at cost		197	10	0
„ 31	„ Furniture and Fittings, as on December 31, 1907		1,000	0	0
„ 31	„ Sundry Debtors—				
	Chancery	£5,842 9 1			
	Common Law	3,241 16 4			
	Parliamentary	6,891 14 1			
	Agency	5.844 6 4			
			21,820	5	10
„ 31	„ Cash at Bank	£1,452 10 6			
„ 31	„ Cash held on behalf of Clients	2,562 0 0			
„ 31	„ Cash on Deposit	2,000 0 0			
„ 31	„ Cash in hand	109 16 1			
			6,124	6	7
			£29,762	2	5

The annual accounts of Messrs. Jameson, Conway and Phelps, solicitors, furnish an example of a form frequently employed, especially by the larger firms in the profession.

The student will note that the first section of the Profit and Loss Account is credited with the gross amount of the bills of costs for the year's work. The debits appearing in the same section relate solely to the various disbursements which have been made on behalf of clients, and have been duly included in the costs appearing on the credit side of the account. The balance of this account does not, therefore, represent in any way the gross profit made, but merely shows the net amount of the fees earned during the year for the professional work accomplished.

The second section of the Profit and Loss Account (to which the above net total of fees earned has been carried down) is charged with all the expenses incidental to the carrying on of the office work of the firm, such as Salaries, Stationery, Rent, etc., and shows a balance which represents the Net Profit earned by the firm. This Net Profit is carried down to the appropriation section, and, after charging interest upon capital, is then divided amongst the partners in accordance with the terms of the partnership agreement.

Duplicate copies of all the bills of costs sent in are usually collected every half-year, and bound in half-yearly departmental volumes. In addition to the bills actually sent in there will always exist in a solicitor's office bills, frequently termed "loose bills," which consist of loose sheets on which the charges on uncompleted matters are entered. In order that the actual work completed within the year may be properly taken credit for, it is necessary to pass a Journal entry through the books debiting in detail the individual clients concerned, and crediting "Costs Account" with the total of the amount represented by these loose bills. Care must, however, be taken to reverse these entries when, in due course, the bills are completed and bound in their respective half-yearly volumes.

In some firms it is the practice to take credit for such bills only as have been actually delivered, the matter being treated upon a cash basis. This, however, is an unsatisfactory method of procedure, as, if large matters remain open at the close of any given period, the succeeding Profit and Loss Account is unduly credited with work which has been largely accomplished in a previous period.

On the other hand, solicitors frequently receive payment in advance for work which they undertake to perform. In such cases care must be taken that credit is only taken for such portion of the work as has been actually completed within the period covered by the accounts. The balance of the payment in advance must be treated as clients' moneys in hand.

It will be noted that the sum received as "Premiums from Articled Clerks, £500," has been credited to the Profit and Loss Account for division amongst the partners, together with the general profits.

It is the practice with some firms to credit all premiums received from this source to the individual partner to whom the clerk or clerks in question are articled. In these cases the premiums would not, of course, appear in the Profit and Loss Account, but would be credited direct to the Drawing Account of the particular partner concerned.

When, as sometimes happens, such premiums are paid in advance in a lump sum, they should be apportioned in appropriate instal-

ments over the period they cover, usually five years, the unearned balance being carried forward by means of a Suspense Account.

The small cash fees earned by the partners as Commissioners of Oaths for affidavits, declarations, etc., are almost invariably, as in the present case, treated as the personal earnings of the individual partner concerned, and do not appear in the accounts of the firm at all.

On referring to the Balance Sheet it will be noted that the Capital Accounts of the partners consist of "fixed" amounts, and that all drawings, interest and share of profits are dealt with in the separate Drawing Accounts of the partners in the manner previously explained on page 230. The credit balances of these accounts are separately set out in the Balance Sheet, and show the amount which each partner is entitled to withdraw as at the date of the Balance Sheet.

It will also be noted that a premium has been paid for the lease of the offices occupied by the firm, which is being gradually extinguished by means of transfers to the debit of the Profit and Loss Account.

The Investment (Consols £200) stands in the names of the senior partner and the Secretary of Inland Revenue, and is maintained in order that stamp duties may be paid by cheque instead of by cash only. When this procedure is followed, cheques will be accepted at Somerset House in payment of stamp duties, and this practice affords considerable convenience.

It will be noted that the furniture has not been depreciated, a recent valuation having proved higher than the sum at which the furniture stands in the books of the firm.

The student will note that no credit has been taken for the stock of stationery in hand at the close of the period. The value of such stock frequently amounts to a considerable sum, and, strictly speaking, it should be credited in the Profit and Loss Account, and set out in the Balance Sheet as an Asset in the ordinary way.

It will also be noted that all moneys held on behalf of clients are stated separately, and are represented by distinct and separate accounts at the firm's bank. This is a healthy practice in the case of a professional firm. A recommendation that clients' moneys should be so dealt with was contained in the report of the Special Committee of the Incorporated Law Society (April 1900).

The accounts are otherwise self-explanatory.

THE CONSOLIDATED GOLD FIELDS OF SOUTH AFRICA, LIMITED
BALANCE SHEET, June 30, 1908

Dr. — Cr.

Capital and Liabilities.				£	s.	d.
Capital Authorized and Issued—						
2,000,000 Ordinary Shares of £1 each	£2,000,000	0	0			
1,250,000 6 per cent. Preference Shares of £1 each	1,250,000	0	0			
				3,250,000	0	0
Reserve—						
Invested in British Government Stock	£1,000,000	0	0			
Invested in the Company's Business Assets	1,000,000	0	0			
				2,000,000	0	0
Liabilities—						
5½ per cent. Debentures issued at 95, and redeemable at par, by 24 annual drawings, of which the twelfth is due July 1, 1908				825,000	0	0
Sundry Creditors				899,829	13	5
Bills Payable				82,000	0	0
Preference Dividend— Six months due at date				35,624	14	3
Debenture Interest— Six months due at date				8,490	12	6
Proprietors' uncleared Warrants and Coupons—						
Debenture Interest	£ 13	1	3			
Preference Dividends	229	16	1			
Ordinary Dividends	3,289	9	6			
				3,532	6	10
Profit and Loss Account— Balance at Credit				468,260	15	4
Contingent Liabilities— Uncalled Capital on Investments, etc.	£106,051	2	6			
				£7,022,738	2	4

Property and Assets.				£	s.	d.
Investments—						
Shares in Companies at or under Cost	£3,944,597	7	7			
Properties and Ventures	74,065	12	8			
Investments on Account of Reserve	935,016	8	9			
				4,953,679	9	0
Loans at Short Call				940,637	1	6
Sundry Debtors and Dividends declared				428,680	16	10
Cash Advances and Mortgages				285,228	19	7
Real Estate and Buildings				197,512	9	7
Office Furniture				7,585	19	0
Stock and Sundry Assets				4,381	19	4
Cash at Bankers and in hand				205,081	7	6
				£7,022,738	2	4

CONSOLIDATED GOLD FIELDS OF SOUTH AFRICA, LIMITED.

PROFIT AND LOSS ACCOUNT, 1st July, 1907, to 30th June, 1908

Dr.	£	s.	d.	Cr.	£	s.	d.
Directors' Fees, Salaries, Office and other Expenses, London, Paris, and Berlin, less Amounts received from other Companies	81,693	9	9	Profits realized by Sales of Investments, Dividends, Commission and Sundry Receipts, less Amounts written off	733,885	13	11
Engineering Department, Office Salaries, and other Expenses, South Africa, less Amounts received from other Companies	19,341	1	5	Transfer fees	720	12	3
Subscriptions and Donations	2,897	11	3				
Debenture Interest	17,875	0	0				
Balance carried down	662,799	8	9				
	£784,606	6	2		£784,606	6	2
	£	s.	d.		£	s.	d.
Depreciation of Investments, Amount written off	200,526	6	2	Balance brought down	662,799	8	9
Preference Dividend, 6 per cent. for year	75,000	0	0	Balance from Appropriation Account	85,167	13	2
French Government Duty and Stamps	4,179	15	5				
Balance carried to Balance Sheet	468,260	15	4				
	£747,966	16	11		£747,966	16	11

APPROPRIATION ACCOUNT (Last Financial Year)

Dr.	£	s.	d.	Cr.	£	s.	d.
Ordinary Dividend, 12½ per cent., paid December, 1907	250,000	0	0	Balance at Credit of Profit and Loss Account, 30th June, 1907	335,167	13	2
Balance carried to Profit and Loss Account	85,167	13	2				
	£335,167	13	2		£335,167	13	2

The Balance Sheet of the Consolidated Gold Fields of South Africa, Ltd., illustrates a typical Balance Sheet of a large financial company. The company in question has formed and floated a number of subsidiary companies to work individual gold-mining areas, and, as the "parent" company, holds large blocks of shares in these undertakings, together with many other properties.

The item calling for special notice on the Liabilities side of the Balance Sheet is the Reserve of £2,000,000; this is shown as being invested to the extent of one-half "in the business," the balance being invested in British Government Securities, the corresponding investments for which appear as amounting to £935,016 8*s.* 9*d.* on the credit side of the statement; the difference between the Investments enumerated, and the nominal amount of the Invested Reserve (£1,000,000) is presumably due to depreciation or other causes.

The balance of the Reserve (£1,000,000), as stated above, is "invested in the business"; in other words, none of the investments or assets held are specifically earmarked as representing it, and the Reserve is merely covered, in company with the Share Capital, by the General Assets of the undertaking.

There appear on the Balance Sheet as a memorandum (not included in the additions of the Balance Sheet columns) contingent Liabilities amounting to £106,051 2*s.* 6*d.* in respect of "Uncalled Capital on Investments." This item represents the uncalled portion of the shares held by the Company, the amount of which it is liable to be called upon to pay at any time.

In the Profit and Loss Account it will be noticed that a net sum of £733,885 13*s.* 11*d.* was made by realizing investments, by dividends, commissions and other items, after allowing for an unspecified provision for depreciation and losses of various descriptions; the stating of this combined net total is doubtless due to a desire, similar to that of trading companies, not to prejudice the company by disclosing to its rivals complete details of its internal working. A further sum of £200,526 6*s.* 2*d.* is written off as depreciation of investments in the second portion of the account.

Probably the asset which presents the greatest difficulty from the valuation point of view is "Property and Ventures, £74,065 12*s.* 8*d.*" This item presumably consists largely of mining "claims" in various stages of development, and expenditure upon "exploration" and other ventures. In cases where mining development is in its early stages, the stock of gold-bearing earth or rock which has been accumulated on a gold-mining property often presents great difficulties from a stocktaking point of view. Of course in the case of alluvial mines, where the gold is free and uniform in character, the local Banks will generally buy the dust outright, and valuation difficulties are not therefore great. But in cases where the gold has to be retorted from quartz, valuations of the "banked" material present much greater difficulties. In many cases low-grade ores entail heavy expenditure in "dressing" before they are marketable, or before smelting or other process can be proceeded with.

The remainder of the items are of a comparatively simple nature and are self-explanatory.

The Peninsular and Oriental Steam Navigation Company.

STATEMENTS OF ACCOUNT

FOR THE YEAR ENDED

SEPTEMBER 30th, 1908.

PENINSULAR AND ORIENTAL
STATEMENTS OF ACCOUNT

Dr. **GENERAL WORKING**

Expenditure.			£	s.	d.
Expense of Navigating Ships, etc.—					
Coal, including freight and all charges		£743,860 19 0			
Lubricating and Lamp Oils and Water		86,471 17 4			
Port and Light Dues, Pilotage, Towage, and Miscellaneous Ships' Charges		215,514 4 11			
Pay of Commanders, Officers and Crews		828,180 1 2			
			1,824,027	2	5
Provisioning of Passengers, Commanders, Officers and Crews			804,704	12	0
Suez Canal Dues—On Ships and Passengers			829,576	18	8
General Administration at Home and Abroad, viz.—					
Directors' and Auditors' Fees		£5,105 0 0			
Salaries and Wages of Employees at Home and Abroad, *all Stations*		116,916 4 10			
Rents, Taxes, Fire Insurance and Repairs of Premises, *all Stations*		15,592 3 10			
Telegrams, Telephones, and Stamps, *all Stations*		10,549 4 1			
Advertising, *all Stations*		15,801 10 0			
Stationery and Printing, *all Stations*		6,315 0 1			
Office and House Expenses, Travelling Charges, etc., *all Stations*		14,306 4 10			
			184,585	7	8
Reduction of Establishments— Payments during the year on this Account			260	0	0
Miscellaneous Expenses—					
Damages, Claims on Cargo, and Law Charges		£23,794 7 11			
Life Assurances of Employees—Company's Contribution		4,048 2 1			
Expenses of Steamers laid up		11,345 7 2			
Quarantine Charges		1,860 0 9			
			41,042	17	11
Ships' Repairs, Stores, and General Maintenance Charges during present year			185,808	1	5
Income Tax on Profits (balance)			3,208	2	1
Interest on 3½ per cent. Debenture Stock			63,000	0	0
Insurance Charges, viz.—					
Fire Insurance in Port, and risks to and from Antwerp, etc.		£8,531 5 2			
General Average claims, Damages through stress of weather, and other casualties		12,455 2 8			
			20,986	7	10
Stock in Ships— Amount carried to that Account for Depreciation on Fleet during the year			374,143	17	0
Surplus—					
Dividends due June 1, 1908, viz.—					
On Preferred Stock, 2½ per cent.	£29,000 0 0				
On Deferred do. 3½ ,,	40,600 0 0				
		69,600 0 0			
Dividends due December 18, 1908—					
On Preferred Stock, 2½ per cent.	£29,000 0 0				
On Deferred do. 6½ ,,	75,400 0 0				
Bonus on do. do. 3 ,,	34,800 0 0				
	139,200 0 0				
Balance to be carried forward, 1908–1909	58,425 3 11				
		197,625 3 11			
			267,225	3	11
			£3,098,068	5	11

STEAM NAVIGATION COMPANY

for the year ended September 30, 1908

ACCOUNT Cr.

Receipts.				£	s.	d.
Amount brought forward from last Account	£157,328	19	9			
Less Dividends, etc., due December 17, 1907	139,200	0	0			
				18,128	19	9
Passage Money	£1,168,265	15	0			
Freight, Charters, and Miscellaneous Services	1,520,080	19	5			
				2,688,346	14	5
Government Contract Services—						
India, China and Australia (net amount)				309,921	16	1
Russian Government—Settlement effected through the Foreign Office for seizure of s.s. "Malacca"				10,000	0	0
Interest, Discount, and Exchange—						
Balance of Account				71,670	15	8
				£3,098,068	5	11

PENINSULAR AND ORIENTAL STEAM NAVIGATION COMPANY

RESERVE ACCOUNT

Dr. | Cr.

	£	s.	d.		£	s.	d.
Balance carried forward to next year	1,250,000	0	0	Balance brought forward from last year	1,250,000	0	0

SUSPENSE ACCOUNT

Dr. | Cr.

	£	s.	d.		£	s.	d.
Balance carried forward to next year	250,000	0	0	Balance brought forward from last year	250,000	0	0

GENERAL BALANCE SHEET, September 30, 1908

Dr. | Cr.

Assets, etc.	£	s.	d.	Liabilities, etc.	£	s.	d.
Stock in Ships, viz.—				Capital authorized £3,500,000 0 0			
Reduced Book Value of Fleet at September 30, 1907 £3,559,751 6 10				Issued in Cumulative 5 per cent. Preferred Stock £1,160,000 0 0			
Deduct amount written off Fleet, as per General Working Account 374,148 17 0	3,185,607	9	10	Issued in Deferred Stock 1,160,000 0 0	2,320,000	0	0
Payments on account of New Ships	675,824	6	11	Debenture Stock at 3½ per cent.	1,800,000	0	0
Steam Tenders, Launches, and Lighters	104,961	1	9	Reserve Account	1,250,000	0	0
Coal, Naval and Victualling Stores	58 615	18	8	Suspense Account	250,000	0	0
Graving Docks, Workshops and Machinery, Wharves, Buildings and Land (Freehold and Leasehold), Moorings, etc., at all Stations	237,130	16	8	Provident Good Service Fund	50,000	0	0
Cash at Bankers, in hands of Agents, and Investments (less acceptances)	2,679,974	7	0	Sundry Balances, and Accounts not closed	1,074,488	16	11
				General Working Account— Surplus £267,225 8 11; *Less* Dividends June 1, 1908 69,600 0 0	197,625	8	11
	£6,942,114	0	10		£6,942,114	0	10

The Peninsular and Oriental Steam Navigation Company is one of the greatest of the British Shipping lines, and its accounts form a good illustration of the published accounts of a company owning a fleet of vessels both for cargo and passenger service.

The most lengthy statement published is the General Working Account, *i. e.* the Trading or Profit and Loss Account.

In connection with this statement it will be noted that, in contrast with some of the trading companies previously dealt with, the Company under review appears to have found it feasible to publish a full statement of its trading.

Turning to the Working Account, it will be noted that the largest items on the credit side are those of receipts for Passage Money from passengers (£1,168,265 15*s.*), and those for the conveyance of Goods (Freight), the leasing of vessels (Charters), and miscellaneous services (£1,520,080, 19*s.* 5*d.*). The Company possesses Government contracts for the conveyance of mails, and has received £309,921 16*s.* 1*d.* under this heading. An exceptional receipt also appears on this side of the account, viz. a sum of £10,000 paid by the Russian Government, presumably as compensation for the seizure of the steamship *Malacca.*

On the debit side of the account are set forth the various items of loss or expenditure incurred during the year—the heaviest expenditure being, as is natural, that upon coal. The dues payable to the Suez Canal authorities for the use of the canal are large (£329,576 13*s.* 8*d.*), as also is the amount written off the Company's fleet (£374,143 17*s.*).

The Reserve and Suspense Accounts show that the Company possesses accumulations of profits amounting to one and a half million pounds.

The Balance Sheet has been prepared (according to modern British practice) with its sides reversed, the Liabilities appearing on the credit side, and the Assets on the debit side; this practice is, however, customary both on the Continent and in America.

The items set forth in the Balance Sheet are, for the most part, self-explanatory, reference may however be made to the item of "Sundry Balances and Accounts not closed, £1,074,488 16*s.* 11*d.*" What this item really represents it is impossible, in view of the vagueness of the description, to say. Any and every Balance on either side of a Balance Sheet could be thus described or grouped together, and the item cannot be regarded as lucid. It might be entirely composed of amounts owing to creditors, or again it might, though it is hardly likely, be entirely an additional reserve. The item doubtless *includes* the amounts owing to the Company's creditors; but beyond this it is impossible to say what the description covers.

The Cash Balance is stated as follows, viz. "Cash at Bankers, in hands of Agents, and Investments (*less Acceptances*), £2,679,974 7*s.* This entry lacks lucidity, and could be amplified with advantage; the balance of "Cash at Bankers" should, in the author's opinion, have been stated separately, and not merged with the less readily realizable assets of Book Debts and Investments. Again, the sums due from agents should have been set forth in a separate total. The Investments should preferably have been stated separately, and their nature and valuations added. Finally, the deduction of acceptances outstanding (*i. e.* certain *liabilities*) from the cash balance, or the total of the liquid assets, is a form of entry which, in a book-keeping sense, cannot be approved.

Dr. **BALANCE SHEET,**

			£	s.	d.
To Capital—					
10,200 Ordinary Shares of £100 each issued fully paid		£1,020,000 0 0			
180,000 4 per cent. Cumulative Preference Shares of £10 each, fully paid		1,800,000 0 0			
			2,820,000	0	0
„ 3½ per cent. Mortgage Debenture Stock— Part of Authorized Amount of £1,700,000 secured by Trust Deed and fully paid..		£1,450,000 0 0			
Interest accrued thereon		12,687 10 0			
			1,462,687	10	0
„ Special Reserve Account— Balance as per last account		£101,739 8 3			
Less Losses on Loans to Publicans, written off, etc.	£22,954 1 7				
Less Loss by Fire on Bishop Stortford Maltings	4,667 13 7				
Less Provision for depreciation of Tenancy Loans	20,534 2 2				
		48,155 17 4			
		53,583 10 11			
„ Mortgage Sinking Fund Account		72,752 15 4			
„ General Reserve Account		60,000 0 0			
„ Depreciation of Investments Reserve		82,489 5 0			
			268,825	11	3
„ Liabilities on Mortgage of Public Houses, Loan and Interest accrued			82,648	5	6
„ Publicans' Trade and other Deposits, with Interest accrued			176.431	17	7
„ Loans secured on Investments			325,000	0	0
„ Outstanding Interest and Dividends			140	9	8
„ Sundry Creditors, Trade and other Accounts		£56,546 16 8			
„ Beer Duty (March)		17,758 7 0			
			74,305	3	8
„ Profit and Loss Account— Balance as at March 31, 1908		£21,633 12 8			
Less Transferred to Mortgage Sinking Fund		14,255 15 8			
		7,377 17 0			
Add Profit as per annexed Account		90,704 10 1			
		98,082 7 1			
Less Preference Dividends		72,000 0 0			
			26,082	7	1
			£5,236,116	4	9

NOTE.—Contingent Liability on Guarantee of Customers' fixed term Mortgages, subject to value of Property so charged, less value of Sub-Mortgage held by Company. £579,200.

Dr. **PROFIT AND LOSS ACCOUNT,**

	£	s.	d.
To Depreciation of Buildings, Machinery, Leasehold Property and Furniture, etc., other than Depreciation on Tenancy Loans charged to Special Reserve	40,430	19	0
„ Interest on First Mortgages, Loans, etc.	11,934	14	9
„ License Compensation Levies	5,458	7	0
„ Income Tax Debit	178	11	0
„ Balance carried down	141,454	10	1
	£199,457	1	10

	£	s.	d.
„ Interest 3½ per cent. Debenture Stock	50,750	0	0
„ Balance carried to Balance Sheet	90,704	10	1
	£141,454	10	1

March 31, 1909 Cr.

		£	s.	d.
By Freehold and Leasehold Brewery, Plant, Machinery, etc.—				
Balance as per last Account	£ 97,791 15 8			
Additions to date	21,852 19 7			
	719,644 15 3			
Less Depreciation and Sales, etc.	18,668 12 2			
		700,976	3	1
,, Goodwill		858,988	15	8
,, Freehold and Leasehold Public and other Houses, Reversions and Equities *		943,287	18	6
,, Loans to Publicans and Interest accrued thereon to date, including Houses in hand, Trade Debtors and Outstanding Accounts	£2,738,782 3 6			
Less Reserve	327,519 19 0			
		2,411,262	4	6
,, Stocks of Beer, Malt, Hops, and Supplies (at cost), Casks, Horses, Drays, Motor Wagons and Furniture		188,121	0	0
,, Investments at Cost, viz.—				
British Railway Debentures and Preference Stocks and Municipal Loans, with Interest accrued thereon (value at date, £345,435)	£492,748 8 11			
Sinking Fund, Trade and other Investments	125,905 12 3			
		618,654	1	2
,, Cash at Bankers and on hand		14,826	1	10
		£5,236,116	4	9

* The deeds of four of the above properties, valued at £23,212 8*s.* 0*d.*, have been deposited as collateral security for contingent liability per contra.

for the year to March 31, 1909 Cr.

	£	s.	d.
By Gross Profit on Trading, after making Provision for Bad and Doubtful Debts	184,630	3	7
,, Interest on Investments	14,710	12	0
,, Interest on Deposit with Bankers	61	3	3
,, Transfer Fees	55	3	0
,, Income Tax Credit	—	—	—
	£199,457	1	10
	£	s.	d.
,, Balance brought down	141,454	10	1
	£141,454	10	1

Messrs. Barclay, Perkins & Co., Ltd., are brewers, and their Balance Sheet may be taken as typical of the Balance Sheets published by the great brewery companies.

The principal point calling for consideration in the case of a brewery company arises out of its commitments in regard to what are known as "tied houses." For many years past it has been the practice of the big brewery companies to invest largely in the leaseholds, freeholds, and goodwill of numerous public-houses, doubtless in order that they shall possess an assured and sufficient series of depots for the sale of their products. The great majority of these establishments were sub-let to individual publicans; and, in addition, many individual tenants of hotels, restaurants and public-houses were granted substantial advances on first or other mortgage of their premises or goodwill, in order to enable them to acquire their premises, or to start in business for themselves. It was always, of course, a *sine quâ non* in regard to these sub-leases, or loans, that no malt liquors should be sold at the houses in question other than those produced by the particular brewery making the advance, hence the derivation of the term "tied houses." At the time when this extensive amount of financing took place, there was current a "boom" in the value of licences, partly arising out of the competition to buy them among different brewers, and partly due to the limited supply—the magistrates frequently refusing to grant licences to newly-erected houses.

Of late years, many brewery companies have suffered severely through losses arising out of their tied houses; it may be said that almost without exception the value of licensed properties has fallen throughout the country owing to various causes, and that the brewers, in whose hands the majority of this class of property had become collected, either as owners or mortgagees, have naturally sustained serious losses. In many cases, the amount lent upon, or invested in tied houses, largely exceeded all the other assets appearing in a brewery company's Balance Sheet; and the company became not only brewers, but also constant lenders of funds upon property connected with the sale of their manufactured products.

The losses sustained through tied houses are exemplified in many brewery companies' Balance Sheets more conspicuously than in the one under review, in which the losses are not striking; but even in this Balance Sheet the largeness of the sum locked up in loans on licensed property is evident. The loans to publicans (with interest), including houses in hand (*i. e.* houses taken possession of under the mortgage for one reason or another), trade debtors and outstanding accounts amount in the Balance Sheet set out above to £2,411,262 4*s.* 6*d.*, *i. e.* nearly half the total assets of the concern. In addition to this, £943,287 18*s.* 6*d.* has been invested in the acquisition of Freehold and Leasehold Public and other Houses, Reversions and Equities. As against these two large totals of assets two transfers from the Special Reserve Account, apparent on the debit side of the Balance Sheet, are of a significant nature, viz. that for "Losses on Loans to Publicans written off, etc., £22,954 1*s.* 7*d.*," and "Provision for Depreciation of Tenancy Loans (*i. e.* loans to tenants of licensed premises owned by the Brewery), £20,534 2*s.* 2*d.*" In order to be in a position to lend freely on licensed property many brewery companies receive money on deposit at interest from the public. In the Balance Sheet under review these liabilities appear under "Publicans' Trade and other deposits, with interest accrued, £176,431 17*s.* 7*d.*"

The Company owns, as shown by its Balance Sheet, investments of the book value of £492,748 8*s.* 11*d.* (the market value of which is £345,435) and Sinking Fund, Trade and other Investments amounting to £125,905 12*s.* 3*d.* These investments are not entirely at the Company's disposal, as a reference to the Liabilities side of the Balance Sheet shows that it has raised loans, secured on them, amounting to £325,000.

The Company has further created a sinking fund for the redemption of certain mortgages, and has set aside a sum of £72,752 15*s.* 4*d.* as a reserve in this direction out of profits. The setting aside of the reserve appears to have been accompanied by the withdrawal of a corresponding amount of cash from the business, and its investment in the form of a sinking fund policy taken out with an Insurance Company (*i. e.* a policy to secure the payment of a fixed sum at a given date, an annual or other periodical premium being payable until that date arrives).

The "Licence Compensation Levies, £5,458 7*s.* 0*d.*," are obligatory contributions towards a fund established by the Government for the compensation of the owners of licensed premises, the licence of which is withdrawn by the magistrates on grounds other than the default of the licencee.

There appears on the liabilities side of the Balance Sheet an amount of £17,758 7*s.* 0*d.* owing by the Company in respect of "Beer duty for the month of March 1909" (*i. e.* the last month of the period covered by the accounts). This represents the amount of the Government Duty on the beer manufactured during the month in question, and is owing to the Excise authorities. In order to facilitate the due collection of this duty, all breweries are obliged to keep a book called an "Excise Brewing Book," which is always open to the inspection of the Excise officer, and from this book is derived the information upon which the duty payable to the Government is calculated; it contains details of the materials and quantities employed in brewing the beer, of the resultant manufactured product, and much other technical information.

The note appended on the liabilities side at the foot of the Balance Sheet is one which discloses the existence of a contingent liability for a considerable amount, and one, moreover, which appears to have arisen out of the practice, common among breweries, of financing and assisting their customers in various ways on condition of their becoming "tied" to the brewery as regards the sale of malt liquors. There exists "a contingent liability on guarantee of customers' fixed term mortgages, subject to value of property so charged, less value of sub-mortgage held by company for £579,200." This note would appear to convey the fact that the brewery company has guaranteed to the persons from whom certain of its customers have borrowed money on mortgage of their premises, the due repayment of the sums so lent to the customers; the brewery doubtless taking, by way of security, a sub-mortgage of the premises so hypothecated, the customer, at the same time, becoming "tied" to the exclusive sale of the brewery's products.

The remainder of the items in the Balance Sheet are to a great extent of an ordinary nature, and require no special mention.

PROFIT AND LOSS ACCOUNT,

	£	s.	d.
To Salaries, Wages, Rents, Rates, Repairs, Maintenance, Horse-keep and other expenses	681,454	4	11
,, Balance carried down	287,851	11	11
	£969,305	16	10
	£	s.	d.
,, Depreciation	67,452	17	3
,, Debenture Stock Interest	17,625	0	0
,, Balance carried to Balance Sheet	202,773	14	8
	£287,851	11	11

BALANCE SHEET,

Capital and Liabilities.									£	s.	d.
To Capital Authorized—											
400,000 Ordinary Shares of £1 each				£400,000	0	0					
500,000 5 per cent. Cumulative Preference Shares of £1 each				500,000	0	0					
				£900,000	0	0					
,, Capital Issued—											
331,000 Ordinary Shares of £1 each fully paid									331,000	0	0
500,000 5 per cent. Cumulative Preference Shares of £1 each fully paid									500,000	0	0
,, Liabilities—											
First Mortgage Debenture Stock at 4 per cent.				£300,000	0	0					
Accrued Interest on ditto, *less* tax				2,850	0	0					
4½ per cent. Debenture Stock				125,000	0	0					
Accrued Interest on ditto, *less* tax				1,335	18	9					
Trade and other Creditors, and Credit Balances				137,365	0	4					
Dividends unclaimed				529	18	4					
									567,080	17	5
,, Reserve									480,000	0	0
,, Profit and Loss Account—											
Balance as per last Account				£121,267	13	8					
Less Final Dividend on Ordinary Shares for half-year ending March 31, 1908, at the rate of 40 per cent. per annum	£66,200	0	0								
Transferred to Reserve	40,000	0	0								
Proportion of Preference Share Dividend to March 31, 1908	8,333	6	8								
				114,533	6	8					
				£6,734	7	0					
To Balance from account for the year ending March 31, 1909				202,773	14	8					
				£209,508	1	8					
Less Preference Dividend from date of last Balance Sheet to Nov. 30, 1908	£16,666	13	4								
Interim Dividend on Ordinary Shares already paid for half-year ending September 30, 1908, at the rate of 25 per cent. per annum	41,375	0	0								
				58,041	13	4					
									151,466	8	4
									£2,029,547	5	9

for the year ending March 31, 1909

	£	s.	d.
By Gross Profit on Trading, etc., after deducting special Exhibition expenses, to March 31, 1909	962,734	8	0
„ Interest and Transfer Fees, etc.	6,571	8	10
	£969,305	16	10
	£	s.	d.
„ Balance, being Profit for the year ending March 31, 1909	287,851	11	11
	£287,851	11	11

March 31, 1909

Property and Assets.		£	s.	d.
By Freehold Land, Buildings and Leasehold Premises, Fixtures, etc., as last year (after depreciation) and subsequent outlay, including Expenditure on Uncompleted Works	£1,125,380 14 2			
Less Estimated Depreciation for the year	22,010 0 6			
		1,103,370	1	8
„ Outlay for sundry installation expenses	9,245 16 4			
Less written off	4,261 0 4			
		4,984	16	0
„ Goodwill, as per last Account		39,189	10	0
„ Stock-in-Trade, as per Inventories, etc., at cost or under		247,946	10	1
„ Sundry Debtors (after providing for bad and doubtful debts) and other Debit balances		54,754	1	4
„ Insurances, Rents, etc., Paid in Advance, and Deposits on Stocks in Bond		42,778	14	11
„ Plant, Machinery, Fittings, Ovens, etc., as last year (after depreciation) and subsequent outlay	£299,222 17 9			
Less Estimated Depreciation for the year	45,442 16 9			
		253,780	1	0
„ Sundry Investments and Secured Loans and Interest accrued after providing an Estimated Depreciation		202,918	17	0
„ Cash at Bankers on Current and Deposit Account, and in Hand		79,824	1	9
		£2,029,547	5	9

Messrs. J. Lyons & Co., Ltd., are the well-known firm of caterers, restaurant and tea-shop proprietors owning numerous restaurants and depots, principally situate in London.

The majority of the items in the Balance Sheet are of a comparatively simple nature, and do not call for explanation. The amount shown among the assets for Goodwill is £39,189 10*s.* 0*d.*, which is doubtless far below the real value of the asset in question, and indicates a sound condition of affairs. The profits for the year ending the 31st of March, 1909, are shown as being over £200,000, a figure which affords a striking contrast to the low valuation placed upon the Goodwill.

In a company engaged in a highly competitive business such as this, the Profit and Loss Account can usually only be shown in summarized form. This procedure has been adopted in the Profit and Loss Account subjoined, in which the Gross Profit on trading and the expenses of the business appear, in each case, in the form of a single total of large amount.

Among the liabilities, it will be noted that the item "Trade Creditors, etc.," embraces also "Credit Balances." It is to be presumed that sundry reserves and suspense accounts have been provided in the Company's books for accrued liabilities or anticipated losses or wastages. It has not, however, been deemed necessary to disclose the nature of these provisions in the published accounts.

The depreciation provided for the wastage which has occurred during the year in connection with the "Leasehold Premises, Fixtures, etc.," viz. £22,010 0*s.* 6*d.*, is probably one of the most important items in the accounts of the Company. The accuracy of the profit figure arrived at depends, of course, upon the adequacy or otherwise of this estimate. Doubtless in the case of the Company under review ample provision has been made.

It will be noted that the "Stock in Trade, £247,946 10*s.* 1*d.*" has been valued at cost *or under*.

The "Debit Balances" included with the Sundry Debtors consist presumably of certain accrued but unpaid income, and of sundries of the opposite nature to those which are provided for in the item "Credit Balances" referred to above as appearing among the liabilities.

It will be noted that the investments in hand, £202,918 17*s.* 0*d.*, are not ear-marked as being held on account of the "Reserve." It must, therefore, be assumed that the Reserve shown, £480,000 0*s.* 0*d.*, is invested in the business generally. The nature of the investments held might have been appended with advantage; presumably they are to a certain extent of the "gilt-edged" or readily realizable variety, but to what extent it is impossible to state; it is also possible that, under the heading of "Sundry Investments," interests in subsidiary companies and allied undertakings are included.

William Whiteley, Limited.

STATEMENTS OF ACCOUNT

FOR THE YEAR ENDED

FEBRUARY 14th, 1909.

WILLIAM WHITELEY,
BALANCE SHEET,

Dr.

				£	s.	d.
To Share Capital—						
4½ per Cent. Cumulative Preference Shares		£450,000 0 0				
Ordinary Shares		450,000 0 0				
Management Shares		100 0 0				
				900,100	0	0
" 4 per Cent. First Mortgage Irredeemable Debenture Stock				900,000	0	0
" Interest accrued on Debenture Stock				16,620	0	0
" Deposits and Current Accounts (Banking Department)				111,314	8	2
" Trade and other Creditors		£86,125 16 9				
" Accrued Charges and Sundry Credit Balances		18,572 7 4				
				104,698	4	1
" Reserve Account				80,000	0	0
" Special Reserve in respect of Hanworth Properties				40,000	0	0
" Profit and Loss Account—						
Balance from February 14, 1908		£ 15,429 18 3				
Balance for year, as below		104,351 17 1				
		119,781 10 4				
Less—						
Interest on Debenture Stock for the year	£36,000					
Dividend on Preference Shares for first six months	10,125					
Amount carried to Reserve Account	10,000					
Amount set aside against Depreciation of Investments	4,000					
		60,125 0 0				
				59,656	10	4
				£2,212,389	2	7

PROFIT AND LOSS ACCOUNT,

Dr.

		£	s.	d.
To Depreciation—				
On Machinery Plant, etc.	£7,225 0 0			
" Horse Renewals Account	1,630 18 11			
" Leasehold Buildings	1,771 4 0			
		10,627	2	11
" Directors' and Auditors' Fees and Trustees' Remuneration		3,211	11	3
" Income Tax Account		700	0	0
" Balance carried to Balance Sheet		104,351	17	1
		£118,890	11	3

LIMITED

February 14, 1909

Cr.

			£	s.	d.
By Freehold Land and Buildings			958,569	11	7
,, Leasehold Buildings, Goodwill, etc. Amount at February 14, 1908		£280,121 4 1			
Additions to Leasehold Buildings during year		896 13 6			
		281,017 17 7			
Less Depreciation of Leasehold Buildings for the year		1,771 4 0			
			279,246	13	7
,, Plant, Machinery, Fixtures, Fittings, etc. (including Glass Houses at Hillingdon Nurseries, and Growing Fruit Trees at Hanworth Farm), as per last Balance Sheet)		£166,190 12 0			
Add Plant transferred from Working Plant Account	£5,481 3 1				
Additions during year	6,571 2 3				
		12,052 5 4			
		178,242 17 4			
Deduct Depreciation applicable to this account for the year		7,225 0 0			
			171,017	17	4
,, Working Plant and Utensils Account			33,002	19	4
,, Horses, Harness, Motor Vans and Vehicles, as per Inventories and Managers' Valuations			24,967	19	5
,, Advances on Mortgage			83,228	0	0
,, Working Capital at Hillingdon			9,925	10	2
,, Stock-in-Trade, at cost or under, as certified by Managers			242,994	4	4
,, Book Debts and Sundry Debit Balances, including Debts on Deferred Payments, less Reserve for Discounts and Doubtful Debts			285,287	11	9
,, Investments, at cost or under, viz.—					
Colonial and Foreign Government and Corporation Stocks		£40,335 3 0			
Foreign Railway Debentures and Stocks		40,265 16 3			
Debenture Stocks and Shares of Investment, Electric Light, and Industrial Companies		56,256 15 10			
		136,857 15 1			
Deduct Amount set aside against Depreciation		9,000 0 0			
			127,857	15	1
,, Cash at Bankers and in hand			96,296	0	0
			£2,212,389	2	7

Year to February 14, 1909

Cr.

	£	s.	d.
By Profit on Trading Account, after making provision for Bad and Doubtful Debts	103,808	18	10
,, Rents Receivable Account	5,690	16	8
,, Dividends on Investments	5,668	2	6
,, Interest	3,042	0	3
,, Transfer Fees	37	0	0
,, Profit on Realization of Investments	643	13	0
	£118,890	11	3

The Balance Sheet of William Whiteley, Ltd., is representative of the form in which those appertaining to large emporiums consisting of numerous departments are published, and the various items do not present any special features. The item of "Deposits and Current Account (Banking Department), £111,314 8*s.* 2*d.*," indicates that the Company carries on a banking business upon a small scale as a branch of its operations. The position of the Company as regards creditors, as disclosed by the Balance Sheet, appears to be undeniably strong; the trade creditors and banking deposits taken together amount to approximately £216,000, and against these current Liabilities the Company possesses Investments and Cash amounting approximately to £224,000, *i. e.* an amount sufficient to satisfy its Liabilities without taking into account the book debts and stock-in-trade, which together amount to over £477,000.

The reference to "Deferred Payments" included in the description of the £235,287 11*s.* 9*d.* of book debts outstanding implies, of course, that the Company supplies goods, *e. g.* furniture, to customers on a system of deferred payments, *i. e.* payment by instalments spread over a number of years.

The acquisition of goods under hire purchase agreements appears to be increasing in popularity. The contract entered into between the parties is to the effect that the trader agrees to grant to his customer, the hirer, the use of the articles specified in the agreement, in consideration of the payment of an agreed sum of money by the hirer divided over the period into a number of instalments. At the conclusion of the period, provided all the instalments have been met, the goods which form the subject-matter of the agreement become the absolute property of the hirer.

It will be obvious that these conditions involve book-keeping methods which are a little out of the ordinary rut of commercial transactions. The many details involved cannot be dealt with in this place. It may, however, be stated that the usual basis of the necessary book-keeping is that the goods hired are treated as *Stock out on Hire.* For valuation purposes such stock is taken *at cost price.* The amount of stock-in-trade, therefore, at any date consists of the cost price of the goods represented by the unpaid proportion of the purchase money, *i. e.* the total of the unpaid instalments as shown by the Hirers Ledger. *Arrears* of instalments are usually treated as debts.

An example of a Hire Purchase Account is given in the *Book-keepers' Compendium*, page 589, under the heading "Hire Purchase Accounts."

The Profit and Loss Account is presented in a highly condensed form, presumably in order not to render any assistance to the firm's competitors.

THE SALVATION ARMY

BALANCE SHEET, September 30, 1908

Dr.

LIABILITIES.				£	s.	d.
To Loans on Mortgage (on Freehold and Leasehold Properties), including accrued Interest				549,157	12	5
,, Loans for Fixed Periods and Bank Loan, including accrued Interest				141,001	4	4
,, Reserve Funds, Sinking Fund for Leasehold Properties and the Redemption of Mortgages, Specific Legacy Fund, and Annuity Fund	£174,622	6	4			
,, Indian Famine Reserve	2,742	0	9			
				177,364	7	1
,, Sundry Creditors—on "General Maintenance," "Property," "Foreign Service," and "Candidates' Uniform Fund"				12,038	11	4¾
,, Self-Denial Fund (Balance)				7,468	16	2½
,, Colonial and Foreign Territories Fund (Balance)				32,155	4	2
,, The Salvation Army Fund, as per last Balance Sheet	£390,640	19	6½			
,, Donations and Subscriptions to the Capital Fund (for Building purposes)	20,941	13	1			
,, General Income and Expenditure Account (Balance)	148	7	10¾			
				411,731	0	6¼
				£1,330,916	16	1½

Cr.

ASSETS.				£	s.	d.
By Freehold (at cost) and Leasehold Property in the United Kingdom, as on September 30, 1907	£940,281	18	9¼			
,, Additions during the year	126,641	19	5			
				1,066,923	18	2¼
,, Furniture and Fittings at Headquarters, Officers' Quarters, and Training Homes in London as on September 30, 1907	£5,908	13	6			
,, Additions during the year	1,571	19	3½			
	7,480	12	9½			
Less Depreciation	2,067	16	8½			
				5,412	16	1
,, Investments and Loans—Sundry Investments (acquired by way of Donation, Specific Legacy, or in consideration for Annuities granted) and Loans on Mortgage, including Investment of Reserve and Sinking Funds	£179,178	6	8			
,, Estate in Australia	9,837	14	8			
				189,016	1	4
,, Trade and Publishing Department (Capital Advanced)				36,335	0	10
,, Loans to Foreign Territories				6,668	6	6
,, Sundry Debtors on the "General Maintenance," "Property," and "Foreign Service" Funds				25,301	9	0
,, Cash at Bank				1,259	4	2
				£1,330,916	16	1½

The accounts of the Salvation Army are kept upon modern and business-like methods, and it is a matter of regret that the same commendation cannot be applied to the accounts of many other religious and charitable institutions.

Owing to limitations of space the Balance Sheet only is reproduced here. The published accounts consist, in addition, of a General Income and Expenditure Account, Foreign Service General Fund, Foreign and Colonial Territories Fund, Indian Famine Fund, Rents and Interest Account, and Self-Denial Fund. All these Income and Expenditure Accounts are kept upon efficient Double Entry principles, and are presented with ample detail. The resulting balances of the accounts are transferred to the second section of the General Income and Expenditure Account, the net balance of which, in turn, is carried to the "Salvation Army Fund," as shown in the accompanying Balance Sheet.

The student will note that wastages of various classes are provided for by means of Reserve and Sinking Funds, the total Reserves so created amounting to £177,364 7*s.* 1*d.* The Reserve for "Specific Legacies" will probably present a new item to many students. The need for such a Fund arises from the fact that from time to time legacies are left to the Salvation Army on condition that the income derived therefrom is to be applied to some specific purpose (*e.g.* the Army's work in India). In these cases the moneys so left are not available for ordinary Revenue purposes, and it becomes necessary to create a Liability in the shape of a Reserve Fund, represented, upon the Assets side of the Balance Sheet, by specially ear-marked Investments, forming part of the total Investments held.

The items "Self-Denial Fund" and "Colonial and Foreign Territories Fund" are the credit balances outstanding upon these funds, and represent moneys yet to be allocated to various branches of the Army's work.

The "Salvation Army Fund" takes the place of the Capital Account in a commercial concern, and represents the amount by which the Assets exceed the Liabilities. The student may perhaps, at first sight, wonder why a sum representing Donations and Subscriptions has been taken direct to the Capital Account. As these donations were given, however, for the specific purpose of erecting buildings, it will be seen, upon consideration, that they are "Capital" donations, and could not with propriety have been passed through the Income and Expenditure Account.

It will be readily understood by the student that in an Institution with so many ramifications and varied interests, the books of the Salvation Army necessarily contain a vast amount of detail of varying natures. In order that the immense amount of work involved may be expeditiously and economically dealt with, books upon the "Columnar" system (as explained in Chapter XVIII) are employed as far as possible, and all Ledgers are designed upon the "Self Balancing" system, the advantages of which are explained in the early part of the same chapter.

THE MIDLAND BLAST FURNACES, LIMITED

FURNACE ACCOUNT for the year ended December 31, 1908

Dr.									Cr.
1908.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To Furnace Wages	5,762	12	6	Dec. 31	By Sales of Slag (net)	4,604	1	2
,, 31	,, Coal (including carriage)	6,420	10	2	,, 31	,, Sales of Sand	141	11	10
,, 31	,, Coke (including carriage)	17,924	1	1	,, 31	,, Wagon Hire	321	0	10
,, 31	,, Limestone	1,621	0	4	,, 31	,, Pig-iron produced (transferred to Pig-iron Trading Account) (cost per ton, 37/$5\frac{7}{8}$)	34,457	7	7
,, 31	,, Ironstone	6,352	8	9					
,, 31	,, Sundry Materials	1,281	4	6					
,, 31	,, Works Salaries	—	–	–					
,, 31	,, Land Damages and Compensation	162	4	1					
	£	39,524	1	5		£	39,524	1	5

PIG-IRON TRADING ACCOUNT for the year ended December 31, 1908

Dr.									Cr.
1907.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To Stock of Pig-iron at this date (cost per ton, 35/$6\frac{1}{3}$)	8,122	10	0	Dec. 31	By Sale of Pig-iron £50,851 14 6 *Less* Short-weight Claims 841 10 2	50,010	4	4
1908.					,, 31	,, Pig-iron consumed in Foundry	92	10	0
Dec. 31	,, Cost of Pig-iron produced, as per Furnaces Account	34,457	7	7	,, 31	,, Stock of Pig-iron	10,981	15	8
,, 31	,, Sundry Trade Charges	6,220	8	6					
,, 31	,, Balance carried to Profit and Loss Account	12,284	3	11					
	£	61,084	10	0		£	61,084	10	0

THE MIDLAND BLAST FURNACES, LIMITED

PROFIT AND LOSS ACCOUNT for the year ended December 31, 1908

Dr. | Cr.

1908.		£	s.	d.	1908.		£	s.	d.
Dec. 31	To Management Salaries and Directors' Fees	2,500	0	0	Dec. 31	By Balance from Pig-iron Trading Account	12,284	3	11
,, 31	,, Reserve for Bad and Doubtful Debts	591	0	0	,, 31	,, Interest received	198	4	2
,, 31	,, Depreciation—								
	Plant, Rolling Stock, etc. £2,500 0 0								
	Coal and Coke Wagons 150 0 0	2,650	0	0					
,, 31	,, Balance carried down, being net profit for the year	6,741	8	1					
		£12,482	8	1			£12,482	8	1
					1908. Dec. 31	By Balance brought down	6,741	8	1

BALANCE SHEET, December 31, 1908

LIABILITIES.	£	s.	d.	ASSETS.		£	s.	d.
To Capital—				By Works, Plant, Rolling Stock, etc	£33,080 0 0			
Nominal Capital, 100,000 Shares of £1 each £100,000 0 0				*Less* Depreciation	2,500 0 0	30,580	0	0
				,, Coal and Coke Wagons	£3,150 0 0			
				Less Depreciation	150 0 0	3,000	0	0
Issued 50,000 Shares of £1 each fully paid up	50,000	0	0	,, Stock on hand—				
,, Sundry Creditors	8,941	3	1	Coal	£240 2 1			
,, Reserve Account	10,000	0	0	Coke	688 4 2			
,, Profit and Loss Account (Balance)	6,741	8	1	Ironstone	600 1 0			
				Limestone	35 4 0			
				Pig-iron	10,981 15 8	12,545	6	11
				,, Sundry Debtors	£15,329 0 0			
				Less Depreciation for Bad and Doubtful Debts	500 0 0	14,829	0	0
				,, Sundry Investments at cost		4,800	0	0
				,, Cash at Bank	£9,842 10 1			
				,, Cash in hand	85 14 2	9,928	4	3
	£75,682	11	2			£75,682	11	2

A perusal of the accounts of the Midland Blast Furnaces, Ltd., will probably introduce to the student a form of presenting trading results with which he is not familiar. But although the form of these accounts is unfamiliar, the principles upon which they have been drawn are those which the student has been instructed to employ in order to arrive at the trading results of ordinary commercial undertakings.

It is of paramount importance to the iron-master to ascertain exactly what the pig-iron he produces is costing him per ton. The "Furnaces Account" has been drafted with a view to supplying this information. All expenses which form any part of the actual cost of *producing* the pig-iron in a condition ready for sale are debited against the account. The only credits appearing in relief of such cost are (*a*) the sales of "slag," the waste product largely used for road repairing, which is removed from the furnaces when drawing off the molten iron, and (*b*) the sale of surplus sand in which the "pigs" are cast in the "pig beds," into which the molten iron is run off every 12 hours. The small item of "Wagon Hire" represents income earned by the Company's Coal and Mineral Wagons in the haulage of materials for neighbours. The balance of the "Furnaces Account," thus arrived at, shows the actual cost of the pig-iron produced by the furnaces during the year, and enables the cost price per ton (in this case 37*s.* 5⅜*d.*) to be accurately ascertained.

The balance of the "Furnaces Account" is carried forward to the debit of the "Pig-iron Trading Account," to which are also debited the "Trade charges," incurred in selling the iron produced, and the initial stock with which the trading for the period was commenced. The net sales of pig-iron are credited to the account, together with a small item, "pig-iron consumed in Foundry," representing iron taken out of stock for use in the Company's foundry and repairing shop. After crediting the final stock on hand at the close of the year, the balance of this account represents the Gross Profit, which is carried forward to the Profit and Loss Account. The usual items are debited and credited in this account, and the balance, representing the net amount of profit available for distribution, is carried down.

The Profit and Loss Account, as described above, takes the place of the "Net Profit and Loss Account" or the "Appropriation Section" of a Profit and Loss Account prepared upon normal lines.

If any interim dividends had been paid during the year they would have been shown in this account.

The Balance Sheet follows, in due course, and is prepared upon lines in which the Assets are set out in the reverse order of their realizability. The student will note that the "Stock on hand" contains stocks of coal, coke, ironstone, etc., which are not set out in the Trading Account. This arises from the fact that, in the accounts representing these purchases, the initial and final stocks are passed through the Ledger Accounts themselves, and the balances, representing the *net* purchases for the year, are transferred to the debit of the "Furnaces Account."

For example, the "Coal Account," through which the carriage on coal is also charged, would appear in the Ledger as follows—

COAL ACCOUNT

Dr.											Cr.
1907.		L.F.	£	s.	d.	1908.		L.F.	£	s.	d.
Dec. 31	To Stock at this date....		350	4	6	Dec. 31	By Stock at this date, carried down........		240	2	1
1908.											
Dec. 31	,, Purchases for the year		5,668	6	7	,, 31	,, Transfer to "Furnaces Account"..		6,420	10	2
,, 31	,, Carriage on same..........		642	1	2						
		£	6,660	12	3			£	6,660	12	3
1908.											
Dec. 31	To Stock brought down		240	2	1						

The Coke, Ironstone and Limestone Accounts are treated in precisely the same manner, the net balances, representing the actual cost (including carriage) of the raw material when placed in the furnaces, being transferred to the "Furnaces Account." The student will realize, therefore, that under this method the debit balances representing the Stocks of these materials carried forward to the next year, are outstanding as Assets upon the Ledger, and must be set out in the Balance Sheet together with the stock of finished pig-iron credited in the "Pig-iron Trading Account."

The remainder of the Balance Sheet is self-explanatory.

THE PRUDENTIAL ASSURANCE COMPANY, LIMITED

REVENUE ACCOUNT of the Prudential Assurance Company, Limited (Industrial Branch) for the Year ending December 31, 1908

LIFE ASSURANCE ACCOUNT.

		£	s.	d.
Amount of Life Assurance Fund at the beginning of the year	£28,124,921 8 8			
Amount transferred from the Ordinary Branch under Regulations of the company	95,003 0 0	28.219.924	8	8
Premiums		6,925,755	5	7
Interest and rents		1,005,203	7	3
	£	36,150,883	1	6

		£	s.	d.
Claims under life policies—				
Sums assured	£2,597,648 16 2			
Bonus additions paid to Dec. 31	72,696 15 1	2,670,345	11	3
Surrenders		156,798	6	8
Bonus to Superintendents and Agents		35,000	0	0
Commission—				
Salaries of 17,298 agents for the weekly collection of premium from 16,567,198 policies	£1,269,118 17 7			
Special new business charges	634,165 5 7	1,903,279	3	2
Expenses of management—				
Policy, postage, and receipt stamps (Head Office only)	£86,610 7 6			
Superintendency charges	237,663 2 4			
Medical fees	63,822 19 5			
Head Office expenses	495,788 18 8	883,885	7	11
Dividends and bonus to shareholders		535,000	0	0
Amount transferred to reserve fund		50,000	0	0
Bonus under life policies reserved for distribution		67,303	4	11
Amount of Life Assurance Fund at the end of the year as per Fourth Schedule		29,849,271	7	7
	£	36,150,883	1	6

PRUDENTIAL ASSURANCE COMPANY, LIMITED (ORDINARY BRANCH)
REVENUE ACCOUNTS for the Year ending December 31, 1908

(No. 1) LIFE ASSURANCE ACCOUNT.

	£	s.	d.		£	s.	d.
Amount of life assurance fund at the beginning of the year.......... £36,203,869 3 8 *Less* amount transferred to the Industrial Branch, being proportion of profits........................ 95,003 0 0	36,108,866	3	8	Claims under life policies (after deduction of sums re-assured)— By Deaths.............................. £1,078,537 13 8 By Endowments matured.......... 1,734,424 11 6	2,812,962	4	9
Premiums, after deduction of re-assurance premiums	4,616,837	3	4	Surrenders	414,581	3	0
Consideration for annuities granted	142,428	19	5	Cash bonus to policy holders	149,612	10	10
Interest	1,326,024	14	11	Annuities	123,118	13	2
				Commission	278,193	2	3
				Expenses of management	120,162	19	11
				Amount transferred to investments reserve fund......	250,000	0	0
				Amount of life assurance fund at the end of the year, as per Fourth Schedule	38,045,026	7	5
£	42,193,657	1	4	£	42,193,657	1	4

(No. 2) SICKNESS ASSURANCE ACCOUNT.

	£	s.	d.		£	s.	d.
Amount of sickness assurance fund at the beginning of the year	498	0	11	Claims	54	0	0
Premiums	6	1	1	Commission and expenses	0	7	3
Interest	17	10	7	Sickness assurance fund at the end of the year as per Fourth Schedule	467	5	4
	£521	12	7		£521	12	7

GENERAL BALANCE SHEET OF THE PRUDENTIAL ASSURANCE COMPANY, LIMITED

Being the Summary of both Branches on December 31, 1908

Liabilities.	£	s.	d.	Assets.	£	s.	d.
Shareholders' capital	1,000,000	0	0	British Government securities	3,416,799	17	6
Reserve funds	2,850,000	0	0	Indian and Colonial Government securities	6,282,786	12	11
Life assurance funds	67,894,765	0	4	Railway and other debentures and debenture stocks and gold and sterling bonds	10,119,247	2	1
Claims under life policies admitted	146,790	18	10	Loans on County Council, Municipal, and other rates	15,036,040	5	5
Bonus under life policies reserved for distribution	67,303	4	11	Freehold ground rents, and Scotch feu duties	4,880,107	8	7
				Freehold and leasehold property	3,729,237	18	11
				Mortgages on property within the United Kingdom	8,997,567	2	6
				Railway, Gas, and Water stocks	7,603,002	16	2
				Suez Canal shares	161,192	13	5
				Telegraph and other shares	96,984	18	0
				Leasehold ground rents	8,207	13	0
				Metropolitan and London County Consolidated stocks and City of London bonds	248,406	8	9
				Metropolitan Water Board stocks	485,263	10	7
				Bank of England stock	202,754	7	10
				Indian, Colonial and Foreign corporation stocks	2,268,696	4	2
				Foreign Government securities	2,438,547	8	4
				Reversions and Life Interests	1,339,794	19	6
				Loans on the company's policies	2,806,987	16	2
				Rent charges	249,736	11	8
				Outstanding premiums, and agents' balances	563,622	3	0
				Outstanding interest, and rents	587,149	17	7
				Cash—In hands of superintendents	34,951	2	0
				,, On deposit, on current accounts, and in hand	451,774	6	0
£	71,958,859	4	1	£	71,958,859	4	1

When examining the accounts of the Prudential Assurance Company, Limited, the student, who is unfamiliar with the Life Assurance Companies Act, 1870, will probably notice, in the first place, that the items appearing in the Revenue Account are placed upon the wrong side of the account from the point of view of the Double Entry Book-keeper. It is the statute in question, however, and not the Company which is in fault, as the First Schedule of the above-mentioned Act prescribes the form which is here employed. It will be noted, on reference to the Balance Sheet, that premiums due but not paid, and outstanding interest and rents, have been taken credit for in arriving at the Revenue for the year, while, on the other hand, the claims due but not paid have been duly provided for. The form of the Revenue Account prescribed by statute is not therefore a Cash Account, but an Income and Expenditure Account; the above-mentioned schedule is not therefore in technical accordance with the accepted form as employed under Double Entry methods.

The Life Assurance Companies Act, 1870, prescribes the publication of the following Schedules—

First Schedule .	Revenue Account.
Second Schedule .	Balance Sheet.
Third Schedule .	No. 1, Life Assurance Account.
	No. 2, Fire Account.
	No. 3, Profit and Loss Account.
Fourth Schedule .	Balance Sheet (when more than one fund the combined Balance Sheet here provided for is necessary).

These Schedules, as published by every Assurance Company, in so far as they apply, are filed annually with the Board of Trade, and are printed in a "Blue Book," which in due course finds its way to the table of the House of Commons.

In the Revenue Account (Ordinary Branch) the student will note that the claims paid are inserted as "after deduction of sums reinsured." It is the practice of Assurance Companies to limit the amount of the risk they undertake upon any one life, the balance in excess of this limit being reassured with other companies. The claims paid and the premiums received are therefore stated *net*, after the deduction of these items as paid to and received from such other companies.

The terms "Ordinary" and "Industrial," as applied to the two branches of the above Company's business, indicate, in the former case, those policies the premiums upon which are paid quarterly, half-yearly or annually. The latter term indicates those policies the premiums upon which are payable weekly or monthly.

The item "Surrenders" represents the sums paid by the Company to those of the Policy-holders who elect to discontinue the policies they hold, receiving therefor a proportionate sum of the amount covered by the policy they surrender. No policy carries any "surrender value" until the premiums for at least three years have been paid in the "Ordinary" Branch, or those for five years in the "Industrial" Branch in the case of "Endowment" policies. Under certain circumstances a surrender value is allowed upon Industrial policies also, but such payments are *ex gratia*, and not a matter of right. The item "Cash Bonus to Policy-holders" represents that portion of the Company's profits which are allocated to the Ordinary policies, the average rate of the bonuses, in the case of the Company under review, being 32*s*. per cent. per annum.

The item "Commission" represents the sum paid during the period to the Company's agents by way of a percentage upon the premiums collected upon the Policies issued through the efforts of the agents.

It will be noted that the Revenue Account (Ordinary Branch) is charged with an amount of £250,000 to meet the shrinkage in the market values of the Investments held by the Company. The Industrial Branch is charged with a like transfer, amounting to £50,000. The Reserve Fund to which these transfers have been made is included in the item "Reserve Funds, £2,850,000," appearing among the Liabilities in the Balance Sheet.

It will be noted that the Balance shown upon the Revenue Account is carried forward to the next financial period, and is shown in one sum among the Liabilities in the Balance Sheet. This item does not in any sense represent the profit earned during the period. The profits of an Assurance Company can only be ascertained by means of a periodical valuation, which takes place, in the case of the Company under review, every year, but in the case of most Companies every fifth year.

An account called a "Valuation Balance Sheet" is prepared, and the unexpired risks running upon the whole of the Policies issued by the Company are ascertained by means of an actuarial valuation, and the total of the outstanding Liability thus arrived at is debited in the above account, and on the other (credit) side the Assets available to meet the total Liabilities as disclosed by the valuation are set out, the balance of the two sums being the surplus, or the deficiency for the period, as the case may be.

A specimen of a Valuation Balance Sheet of the above Company is as follows—

VALUATION BALANCE SHEET

	£	s.	d.		£	s.	d.
Liability under Assurance and Annuity Transactions (as per Summary Statement provided in Schedule 8).......	16,244,497	0	0	Life Assurance and Annuity Funds (as per Balance Sheet under Schedule 4)	17,156,393	0	0
Sickness Assurance...	220	0	0	Sickness Assurance Fund	558	0	0
	16,244,717	0	0				
Surplus	912,234	0	0				
	£17,156,951	0	0		£17,156,951	0	0

The Balance Sheet, which, it will be noted, contains full particulars of the Investments held, is self-explanatory.

The item "Agents' Balances," scheduled as an Asset, may appear to be heavy. It must, however, be remembered that, in the case of the Industrial Branch, each agent remits the premiums collectible (known as the Agents' "Collectible Debit") for the one week during the course of the following week, and that, therefore, at any given date, a considerable sum is necessarily in the hands of the Company's agents awaiting remittance. The item in question will also, doubtless, include some "arrears"; no agent, however, is allowed to remain in the Company's debt to a greater extent than an amount representing three times the amount of his weekly "collectible debit."

CHAPTER XXII

HINTS TO EXAMINATION CANDIDATES

It has fallen to the author's lot, for many years past, to examine papers in book-keeping and accountancy subjects in greater number, perhaps, than falls within the experience of many men. It has been suggested from several quarters that, for this reason, therefore, some hints to candidates arising out of the experience thus gained might prove helpful. It is possible, and indeed probable, that much that is set down hereunder may prove trite and commonplace to many readers; but, on the other hand, there may be others who will glean some helpful suggestion from one or other of the hints which follow, and if this should prove to be the case the present chapter will have justified its inclusion in this treatise.

The subject-matter under consideration divides itself naturally into two divisions, viz.—

1. How to acquire the necessary knowledge.
2. How to use knowledge acquired to the best advantage in the examination room.

To take the first point—

The acquisition of Knowledge, or Preparation.—Which is the best way of acquiring a good knowledge of book-keeping? The problem is not an easy one, nor is any dogmatic prescription available. The solution of the question must always depend largely upon the circumstances surrounding it, and the opportunities available to the individual student in question. There will, however, be general agreement that book-keeping is probably one of the most difficult of subjects to teach theoretically in School or Class. Practical experience is apparently more essential for the development of a really good book-keeper than is the case with almost any other branch of knowledge. There is only one school in which practical book-keeping can be satisfactorily learned, and that school is a counting-house; actual experience must always be the best of teachers. Obviously, however, with a large proportion of students, practical work follows, and is to some extent the result of preliminary preparation.

The first advice the author would offer to the student, therefore, is to urge him not to attempt to teach himself book-keeping. It is pre-eminently a subject upon which

an ounce of practical teaching is worth the proverbial ton of theoretical reading.

If it is in any way possible, the student should join some school or class under a qualified teacher. There is now, fortunately, no lack of competent teaching of practical and modern methods. Indeed the improvement in this direction, as evidenced by the worked examination papers sent in by examinees, as compared with the standard attained only a few years ago, is most marked and encouraging.

It is particularly urged that the student should make himself thoroughly acquainted with the most modern forms of Cash Books, Petty Cash Books, Sales and Purchases Journals, etc. It is upon books of this nature that the young recruit will probably be first set to work upon his entry into commercial life, and it is important that he should have as little as possible to *unlearn*, in connection with the work he will have to undertake. The author's advice to the young student is:—Choose the easier task, therefore, and *learn* in the first instance the uses and methods employed in keeping books of this class in their latest and most modern forms. Examination work furnishes ample evidence that there is still, in some instances, much to be learnt in connection with the detailed working of subsidiary books of this nature. Make sure, therefore, that the knowledge you are now gaining laboriously will not fail you when put to the actual test of the requirements of modern practical book-keeping.

It will be unnecessary to urge as another axiomatic fact that no student, however able, can hope to pass the test of modern examinations without diligent and methodical study, supplemented by the expert help and friendly criticism of a qualified teacher. Yet lack of method in preparation is the only too evident cause of failure in the case of a considerable percentage of students. Portions of the subject have been well mastered, whilst other equally important and even preliminary steps to the foundation of a sound knowledge of book-keeping have been neglected. For instance, some students can prepare a Profit and Loss Account and Balance Sheet from a given Trial Balance with accuracy and good knowledge, whilst failing entirely to submit correct work in entering up the subsidiary books from which a Trial Balance has to be built up; yet, of course, it is just upon the keeping of these subsidiary books that the young book-keeper's first essay upon practical commercial life is to begin.

Be careful, therefore, that your preparation is methodical and thorough. Do not attempt to fly before you can walk; consider carefully your own weak points or ask advice upon them; and devote special time and attention to their rectification.

In this direction should be found one of the great benefits to be obtained from class attendance, as the student to a large extent, at any rate, is kept to a methodical course of preparation.

Up to this point, therefore, the author's advice is (1) Acquire, at all costs, method in your preparation. Map out a clear and careful plan of campaign for your preparatory work, and a methodical time-table of working hours, and adhere loyally to it. (2) Read consecutively through the selected text-book, and master the fundamental principles of book-keeping before you undertake any of the kindred subjects that the examination you are preparing for may embrace.

Having selected your text-book, the next question to decide is which is the best method to adopt in endeavouring to digest its contents. The consideration of this point raises all the bristles of the much-vexed question of note-taking. It would probably be hard to find a subject upon which students differ more radically than in their methods and manner of note-taking. Upon a matter, into the solution of which the idiosyncrasies of the individual student must so largely enter, dogmatism is, of course, out of place. The author is, however, of opinion that a careful synopsis of each chapter read will prove of value to the student; not only for future reference, but as a means of compelling him to think out and analyze, in a carefully-digested form, the various aspects of the matter he has read, and to single out the points it is essential for him to commit to memory. The mere fact that information exists in a student's note-book does not, of course, ensure its being in his head also—the two things are not necessarily synonymous, care must however be taken to make them so. A note-book prepared with care and discrimination and well digested mentally is, without doubt, a valuable aid to the great majority of students.

In the author's opinion a portion of the student's preparation, which is almost as important as the acquisition of the necessary knowledge, is often omitted by many students, and that is, ample practice in putting down *in writing*, in clear and concise language, answers to exercises and examination questions which have been previously set.

The usual practice with many students is to run hastily through sets of old examination questions with a brief "Oh, I know all that!" or, in case of doubt or ignorance, a short reference is perhaps made to the text-book; having done which the student passes on his way. Now, it is of course easy to pass by questions, as satisfactorily answered, with ejaculations of the above character, but it is quite another thing to put down *in writing* a clear and concise answer that will carry good marks upon examination. The student may think that the importance of this point is unduly emphasized or exaggerated. This is not the opinion of the author. The one thing that stands out pre-eminent in the experience of examiners on book-keeping subjects, is the small percentage of students who appear to be able to properly complete the work set within the limit of the time allowed. There is, of course, an ancient, and probably irremovable, conviction amongst candidates, that every examination paper is, as a matter of course, unfairly long. In the great majority of cases the conviction is legendary; but the fact remains that a large number of candidates fail to do themselves justice in the examination room owing to their inability, through lack of practice, to convert knowledge possessed clearly and concisely into words on paper within a reasonable time.

The author's advice, therefore, upon this point is, as will already have been gathered, to answer in writing, *just as you would in an examination room*, as many exercises and past examination questions as you can secure the time for. Indeed the student may wisely devote at least one-fourth of the whole of the time set apart for preparation work to the answering of questions in this way.

It will be helpful discipline, too, for the student to time himself when answering complete papers; in this way he will obtain a useful gauge of his progress.

This takes us to the second point of our subject: **How to use acquired knowledge to the best advantage in the examination room.**

There is probably no prospective candidate who reads these words who could not explain his views as to examination questions in general with eloquence. The author does not propose to enter into the controversy. The trouble, it is feared, is not epidemic, but chronic, and the symptoms are apparently common to the genus candidate all the world over. The author has frequently noticed, however, that, as a rule, those gentlemen who

have had the least to say to the questions inside the examination room have invariably the most to say about them outside that room.

Another firmly-rooted conviction still surviving amongst some examinees appears to be that the majority of examination papers contain some deep and dangerous trap or pitfall for the unwary candidate. Under this conviction some candidates waste much precious time hunting for the bogey.

If the author's assurance is accepted upon this point, the student may dismiss all such unworthy suspicions from his mind. It is of the first importance that the examinee should enter the examination room with the comfortable conviction that, whether he passes or fails, he will be justly and even generously dealt with. He will do far better work under this conviction, and this is a feeling which he may confidently entertain with reference to the examinations of all bodies of recognized standing.

Having entered the examination room, therefore, in a proper frame of mind, the author would advise the candidate to read through the *whole paper* carefully.

Some candidates answer the questions in the order in which they are set without reading through the paper as a whole, or making any attempt to roughly apportion the time allotted to them amongst the questions set. It is far wiser for the candidate to intelligently read the whole paper through, selecting the one or two questions about which he feels most confident, and answering them as a commencement of his task. When the candidate has dealt with a few questions the answers to which he knows are more or less correct, he will feel much more confident, and will then be able to tackle the longer and more difficult questions with a far greater likelihood of success. It is particularly important that candidates of nervous temperament should ensure the measure of equanimity which is gained by the feeling that, at any rate, a few well answered questions stand to their credit before they embark upon the longer problems set them.

In the case of those questions where certain closing adjustments, outside the Trial Balance, are necessary before completing the preparation of the Profit and Loss Account and Balance Sheet, it is, in the author's opinion, a wise plan to draft the closing adjustments *in the form of Journal entries*, ticking them off one by one as they are passed into the accounts. In a large percentage of cases

where the examination candidate fails to "balance" his accounts the error arises through some careless slip or omission in dealing with one entry only of some adjustment he is asked to make. Disconcerting mistakes of this nature will become impossible if the course suggested above is carefully carried out.

In examination Exercise II on page 526, for example, the necessary adjustments would be journalized as follows—

JOURNAL

	£	s.	d.	£	s.	d.
Depreciation Account.....................Dr.	2,803	10	0			
To Sundries—						
Machinery and Plant Account........				2,136	0	0
Building Account				667	10	0
For Depreciation for the year ended Dec. 31, 1908, at 6 per cent. and 3 per cent. respectively.						
Profit and Loss Account..................Dr.	2,803	10	0			
To Depreciation Account..................				2,803	10	0
For Transfer of the Balance of this account.						
Stock Account..............................Dr.	23,700	0	0			
To Trading Account.........................				23,700	0	0
For the Stock on hand as on Dec. 31, 1908, as per valuation.						
Profit and Loss Account.................Dr.	25	0	0			
To Reserve for Bad and Doubtful Debts				25	0	0
Being the additional amount required in order to carry forward a Reserve of 5 per cent. upon the outstanding Sundry Debtor Balances as on Dec. 31, 1907 (£52,500).						
Profit and Loss Account.................Dr.	500	0	0			
To Patents Account.........				500	0	0
For amount written off this account during the year.						
Profit and Loss Account.................Dr.	500	0	0			
To Sundry Creditors (Directors' Fees)				500	0	0
For fees due to the Directors for the year ended Dec. 31, 1907, as per Articles of Association.						
Insurance Paid in Advance ....Dr.	90	0	0			
To Insurance Account.......................				90	0	0
For the value of Unexpired Insurance Premiums carried forward to next year.						
Profit and Loss Account.................Dr.	1,826	3	0			
To Managing Director........................				1,826	3	0
For 10 per cent. commission upon the Net Profits for the year ended Dec. 31, 1907, as per Agreement.						
Profit and Loss Account.................Dr.	2,500	0	0			
To Reserve Account..........................				2,500	0	0
Being the amount added to the fund during the year ended Dec. 31, 1907.						

These Journal entries have been set out above just as they would appear in the Company's books, but they may be curtailed by the candidate, for the present purposes, to such entries as will ensure the safe arrival of each item at its correct destination in the accounts he is preparing. Each item should be carefully marked off when dealt with. If these precautions are followed, errors in the final "balance," from this source, are thus completely avoided.

If the candidate has no certain knowledge of any question set he will be well advised to leave it alone altogether. The practice of "having a shot" at questions, although popular amongst some candidates, is fraught with great danger, and is not unlikely to prejudice the remainder of the paper.

Candidates should endeavour to arrange their answers methodically. Let the data you supply the examiner with be "edited" as far as possible with suitable underlined headings; especially is method of this description desirable when answering questions which contain one or more points. To take a simple example—

Question.—What is your opinion with reference to the employment of "Loose Leaf Ledgers"?

Answer.—ADVANTAGES may be claimed for "Loose Leaf Ledgers" under several headings—

1. Accounts that are "dead" may be eliminated from the Ledger.
2. The pages of an account that have been "settled" may be removed and filed elsewhere so that the bulk of the Ledger may be kept within reasonable limits.

Etc., etc.

DISADVANTAGES also exist in connection with this system in that—

1. Pages of an account when once removed may be lost.
2. Unless care is exercised in the issue of fresh pages fraud may be covered by the substitution of pages containing altered figures.

Etc., etc.

Method of this description is more likely to cover all the points raised by the questions set than the methodless and disconnected answers so often sent in by examinees.

When answering questions, candidates should endeavour

to strike the happy medium between verbiage and the opposite extreme of cryptic brevity affected by some students. Answers should be full, in the sense that they should deal efficiently, but concisely, with all the points covered by the question set. The verbose candidate goes much further than this. He is apparently of opinion that however little the examiner wants, "he wants that little long." Accordingly, he proceeds to drag in all manner of irrelevant matter, thereby wasting his own time and that of the examiner.

On the other hand, all candidates will be aware, of course, that a mere "yes" or "no" carries no marks upon examination. The candidate must furnish some reasonable evidence to the examiner that his answer is based upon real knowledge, and is not merely the result of a fortunate guess.

In book-keeping, as in almost every other subject, there are points of treatment in which experts differ. In answering questions of this type the candidate should avoid dogmatism. In dealing with questions upon which strongly opposed views are held, it is wiser to state briefly the contentions of the differing schools of opinion, stating plainly your own personal views, and giving reasons, without violence, for the faith that is in you. Whatever the particular views held by the examiner may be, if you justify your answer with moderate and sensible argument, your claim for a fair share of the marks carried by the question will be sure to be recognized.

Many questions contain two or more points of equal importance with which the candidate is asked to deal. It is a matter of experience, however, that, in the case of questions of this type, there are always a number of examinees who lose marks by neglecting to deal with both or all the points raised by the question before them. This failing is often due to careless forgetfulness and lack of method. A second reading of the question before the candidate passes on to his next answer would discover the omission, and, occupying but little time, would frequently save many marks which would otherwise be lost. Obviously the examiner cannot give marks for work which is not sent in, however certain he may feel that the omission is due to mere carelessness.

Another point to which it would be thought there would be no necessity to refer, is the fact that some examinees place too literal an interpretation upon some

phrase or word employed by the examiner, without pausing to consider its context in the question. This again, doubtless, is often a phase of carelessness, for the false issues raised are frequently so ridiculous that a very brief re-consideration of the question should have avoided the loss of time and marks entailed. Any one who has undertaken examination work will freely admit that it is a most difficult task to frame an examination question so that the desired meaning shall be clear to all. If some other interpretation be evolvable by any stretch of imagination, however daring, some candidate is sure to be present who is equal to the task.

For example, the author once asked, in a book-keeping examination, for a definition of the term "Royalty." One candidate replied that "Royalty was anything appertaining to the Royal Family"! The dictionary would probably support this view. But one would hardly have thought that a candidate, in a book-keeping examination of some difficulty, would place such an interpretation upon the term.

The illustration is, of course, an extreme one; but it suffices to emphasize the warning that, in many cases, marks are lost owing to the too literal interpretation of some word, or phrase, without due regard to its contextual position or to the examiner's probable meaning.

If the candidate finds that he can place two different and reasonable interpretations upon any item in a question set, he will be wise to use the item in the sense of the most probable of its interpretations, and to append a clear and concise note to his accounts stating that there is also the other possible interpretation which, if adopted, would have been dealt with in such and such a manner, briefly showing how the accounts would have been affected.

There are other candidates, unfortunately far too numerous, who, although evidently possessing a good knowledge of book-keeping, spoil their chances of distinction by making stupid arithmetical errors, often in the simplest of calculations. Errors of this nature may not fail a candidate who showed otherwise a good knowledge of the subject, but they must obviously handicap him in obtaining class distinction. It is well worth the short time occupied in making sure that the arithmetical calculations necessary in working out questions have been correctly made before passing them into the accounts you are asked to prepare.

When the candidate has answered all the questions he can, he will be well advised not to hand in his paper at once, and hurry out of the examination room, as so many candidates do. However good the paper may be, there is sure to be some weakness which can be remedied upon a careful revision. Neatly rule up and bring down the balances of the Ledger accounts. Red ink the Profit and Loss Account and Balance Sheet, and re-write any answers or parts of answers the wording of which can be made clearer or more concise.

The last few minutes of an examination spent in careful revision, in this way, may make all the difference to the place which the examinee may ultimately secure upon the pass lists. Experience shows, especially in a large examination, that the leading candidates are remarkably near to each other, as often as not a mark or two only separating them. The final revision of the paper, therefore, may prove of vast importance to the candidate's success.

To sum up briefly these few suggestions, the author would again emphasize the fact that, in his opinion, many of the detrimental weaknesses by which examination candidates are handicapped may be largely overcome if they will train themselves—

Firstly, to acquire method in preparation, or, in other words, a methodical "habit of study."

Secondly, to acquire method in marshalling and expressing knowledge possessed when dealing with actual examination questions.

If the student will work studiously and honestly upon these lines for a period suitable to his individual requirements, examinations need have no terrors for him. He may rest assured that he will be justly and fairly dealt with by his examiners, if he has dealt justly and fairly with himself, and the work he has undertaken. Let him also remember always that, to be successful, the accountant and book-keeper must continually remain earnest students. Even the youngest amongst us is on the road to success when he fully realizes how little he knows.

CHAPTER XXIII

HOW TO ANSWER EXAMINATION PAPERS

EXAMINATION EXERCISE I

THE following exercise was set at a well-known examination—

John Druce, a cycle dealer, had, on December 31, 1907, the following Assets—

	£	s.	d.
Cash at Bank	300	0	0
,, in hand	25	0	0
Stock	650	0	0
Furniture and fittings	120	0	0
Bills Receivable :			
A. Graves, due Jan. 9, 1908	75	0	0
B. Walters, due Jan. 10, 1908	125	0	0
Owing by :			
A. Brown	25	0	0
J. Smith	45	0	0
A. Graves	20	0	0
B. Walters	10	0	0
M. Robinson	105	0	0
	£1,500	0	0

His liabilities on the same date were—

	£	s.	d.
Due to H. Sweeting	150	0	0
,, ,, A. Fisher	75	0	0
Bills Payable :			
S. Unwin, due Jan. 6, 1908	90	0	0
F. Lord, due Jan. 8, 1908	85	0	0
	£400	0	0

John Druce agreed to take M. Robinson into partnership conditionally upon the amount owing by him to John Druce on December 31, 1907, being paid at once; and upon his bringing into the business, in cash, the same amount of capital as was standing to the credit of John Druce's Capital Account at this date; one-half of this latter amount was to be paid out in cash, by way of premium, to John Druce and was to appear in the books of the partnership as Goodwill. These conditions were duly carried out as on January 1, 1908.

You are required to make the necessary entries recording the above, and to pass through the proper books the following transactions—

1908.

Jan. 1. Bought of H. Sweeting 1 dozen bicycle frames at 15*s.* each.
,, 1. Ditto, for cash, 4 dozen wooden crates at 3*s.* each.
,, 2. Sold A. Brown 3 bicycles at £7 10*s.* each, one of which was returned on January 3.
,, 3. J. Smith paid his account, deducting £2 for bicycle damaged in transit.
,, 3. Sold B. Walters 2 bicycles at £8 8*s.* each, charging him with 2 crates at 3*s.* 6*d.* each.
,, 3. Bought of A. Fisher 6 pairs of wheels at 30*s.* a pair and a job lot of accessories for £5.
,, 4. Paid office salaries and wages, drawing and cashing a Cheque for same, £6 10*s.*
,, 4. Each partner drew out in cash £3 on private account.
,, 6. Paid A. Fisher by Cheque £25 on account.
,, 6. Bill payable (S. Unwin), due this day, paid by Bank.
,, 6. Sold J. Smith one bicycle for £7 10*s.* upon which he paid £2 on account.
,, 7. Bought for cash two second-hand bicycles at 15*s.* each, one of which was sold for cash the same day for 25*s.*, which 25*s.* was paid direct into the Bank.
,, 7. Cashed Cheque for £10 for petty cash purposes.
,, 8. Bill payable (F. Lord), due this day, paid by Bank.
,, 8. B. Walters paid the balance of his account as on this day, deducting 5 per cent. discount, which was disallowed.
,, 9. Bill receivable given by A. Graves returned dishonoured: a new bill at one month being given for the whole of his account.
,, 9. Sold to B. Walters 20 brakes at 2*s.* each and 6 lamps at 5*s.* each.
,, 9. Bought of F. Lord 6 dozen lamps at 3*s.* each.
,, 10. Bill Receivable (B. Walters) duly met.
,, 10. Sold A. Graves a second-hand bicycle for 30*s.*
,, 11. Paid office salaries and wages, drawing and cashing Cheque for £6.
,, 11. Each partner drew in cash £3 for private purposes.
,, 11. A. Brown accepted a bill at 3 months drawn upon him for the balance owing by him at this date.

All moneys received were paid at once into the Bank. Balance the Ledger accounts as on January 11, 1908, bring down the balances and extract a Trial Balance.

N.B.—*No* Profit and Loss Account or Balance Sheet to be prepared.

In order to open John Druce's books, and before considering how M. Robinson's admission as a partner may affect the position, it is necessary to incorporate in the books (which after Robinson's admission will become the books of the firm), the financial position of John Druce as on December 31, 1907.

Upon reviewing the question before us, it will be seen that John Druce's Assets total up to £1,500, and that his liabilities amount to £400, his "capital," as at December 31, 1907, is consequently £1,100.

A Journal entry to record these facts is accordingly first put through the books, debiting to their respective Ledger accounts all the Assets held, and crediting to their respective accounts all the Liabilities outstanding. The Journal entry, as will be noted, is made to agree by the inclusion of John Druce's Capital, £1,100, this being the sum which represents the difference between his Assets and Liabilities as on December 31, 1907.

The books having been opened by means of these entries, it becomes possible to deal with the arrangement arrived at between John Druce (the previous owner of the business) and M. Robinson (the incoming partner).

The proposal is as follows—

(1) That M. Robinson shall at once pay the £105 due from him.

(2) That he shall bring into the business, in cash, as his capital, a sum equal in amount to the capital standing to the credit of John Druce as on December 31, 1907, viz. £1,100.

(3) That of this £1,100 one-half (£550) shall be permitted to be withdrawn by John Druce as a payment to him by the new firm by way of "premium" (*i. e.* as the purchase price) for the goodwill of the business. On admitting a new partner upon equal terms with himself, John Druce becomes the owner of only one-half of the goodwill of the business and half the profits, instead of, as heretofore, possessing both business and profits entirely, it is thus only just and fair that he should demand from the new firm and the incoming partner something by way of compensation for this concession on his part.

It is stated in the question, that this arrangement was duly carried out, and, as a necessary consequence, the following transactions must be recorded—

(1) *M. Robinson paid into the Bank of the new firm the £105 due from him.*

(2) *M. Robinson paid into the Bank £1,100 as his capital.*

(3) *J. Druce withdrew from the Bank £550 as the agreed purchase price to the new firm (consisting of himself and M. Robinson) of the Goodwill.*

For transaction No. (1) *the necessary entry is*—

Debit the Bank Account with £105, because the Bank has received the money, and *credit* M. Robinson because he has paid that amount. It is, of course, M. Robinson's old current account as an ordinary *debtor* in the Ledger which must be credited in this instance, and not the Capital Account to be subsequently opened in his name, which will be referred to hereafter.

For transaction No. (2) *the entry is*—

Debit the Bank Account with £1,100 because it has received the money, and *Credit* M. Robinson (Capital) Account because it is "M. Robinson" who has paid the money, and because it is in order to furnish his "Capital" in the new business that he has paid in the £1,100.

For transaction No. (3) *the entry is*—

Credit the Bank Account with £550 because £550 has been withdrawn from this account, and *Debit* the "Goodwill" Account with £550 because in exchange for this sum an asset, viz. the Goodwill, valued at £550, has been acquired by the new firm.

The remaining transactions set out in the question, and the manner of their treatment in the books, are set out hereunder—

Jan. 1. *Bought of H. Sweeting* 1 *doz. bicycle frames at* 15*s. each* (£9).

Debit "Purchases" (in the Purchases Book for subsequent entry to the debit of the Purchases Account in the Ledger) because goods to the value of £9 have been acquired, and *Credit* H. Sweeting because he has parted with goods to that amount.

Jan. 1. *Bought for cash* 4 *doz. wooden crates at* 3*s. each* (£7 4*s*.).

Credit "Cash" with £7 4*s*. because that amount of cash has gone out of the business, and *Debit* the "Purchases" Account, because goods of that value have come into the business.

Jan. 2. *Sold A. Brown* 3 *bicycles at* £7 10*s. each, one of which was returned on January* 3.

Debit A. Brown with the cost of 3 bicycles at £7 10*s* each (£22 10*s*.) because he has received them from the

business, and *Credit* the "Sales" Account (*via* the Sales Book) because bicycles of that value have been parted with by the business. For the bicycle which was returned on January 3 an entry for £7 10*s*. must be passed through the books as though the returned bicycle represented a repurchase from A. Brown.

The second entry consequently is—

Debit "Returns Inwards" (in the "Returns Inwards Book" for subsequent posting to the debit of the "Returns Inwards Account" in the Ledger) for the goods returned because they have come back into the business and have been put into stock again, and *Credit* A. Brown with £7 10*s*., representing the value of the bicycle returned by him.

Jan. 3. J. Smith paid his account (£45), *deducting* £2 *for bicycle damaged in transit.*

For the £43 thus paid by J. Smith—

Debit the Cash Book with £43, since the money has been received, and *Credit* J. Smith with £43 because he has paid that sum.

To record the £2 allowance made to J. Smith—

Debit "Allowances" Account with £2 because money has been lost in this direction, and *Credit* J. Smith with £2 because the allowance to him is the equivalent of a cash payment received from him, which would, of course, have been placed to his credit. This latter entry passes through the Journal proper, there being no other book of original entry in which it can be appropriately recorded.

Jan. 3. Sold B. Walters 2 *bicycles at* £8 8*s*. *each, charging him with* 2 *crates at* 3*s*. 6*d*. *each.*

This transaction must be treated as a sale to B. Walters of bicycles and crates, no difference in treatment being made between the bicycles and the crates which contained them.

The necessary entry is therefore—

Credit "Sales" (through the Sales Book) with £16 16*s*. for the bicycles sold and with 7*s*. for the accompanying crates, all these articles having been parted with, and *Debit* B. Walters with their value because he has received them.

Jan. 3. Bought of A. Fisher 6 *pairs of wheels at* 30*s*. *per pair, and a job lot of accessories for* £5.

Debit "Purchases" Account (*via* the Purchases Book)

with the cost of the wheels (£9) and of the accessories (£5), because these goods have come into the business, and *Credit* A. Fisher because he has supplied the firm with them.

Jan. 4. *Paid office salaries and wages, drawing and cashing a Cheque for same* (£6 10*s*.).

This transaction is in fact twofold, as follows—

(1) £6 10*s*. has been withdrawn from the Bank for Office cash purposes.

(2) Out of the Office cash £6 10*s*. has been paid away in salaries and wages.

For transaction No. (1) the following entry is necessary—

Credit the "Bank" column in the Cash Book, representing the withdrawal of the £6 10*s*. from the Bank, and *Debit* the "Cash" column in the Cash Book, in order to record the receipt of the money by the Cashier.

For transaction No. (2)—

Credit the "Cash" column in the Cash Book, representing the fact that £6 10*s*. has gone out of the Cashier's hands, and *Debit* "Office Salaries" and "Wages" Accounts, in order to record the fact that the money has been used in these directions.

Jan. 4. *Each partner drew out in cash* £3 *on private account*.

It is better to debit sums thus withdrawn for private purposes by the partners in a firm, at the time of their occurrence, to separate "Drawing Accounts" kept for each partner; these Drawing Accounts can, at any desired date, be closed by the transfer of the total withdrawals to date to the debit of the respective Capital Accounts of the members of the firm.

It is moreover a wise precaution for the entry of withdrawals for private purposes to bear the initials of the partner concerned against the item as and where it appears in the Cash Book.

The necessary entries therefore are—

Credit the "Cash" column in the Cash Book with two sums of £3, representing the fact that £6 in money has been paid out, and *Debit* "J. Druce, Drawing Account" and "M. Robinson, Drawing Account" with £3 in each case because it is to the partners that the money in question has been paid.

Jan. 6. *Paid A. Fisher £25 by Cheque on account.*

Credit the "Bank" column in the Cash Book with £25 because that sum has been withdrawn from the Bank, and *Debit* A. Fisher with £25 because he has received the money.

Jan. 6. *Bill Payable* (*S. Unwin*) *due this day paid by Bank* (£90).

Credit the "Bank" column in the Cash Book with £90 because this sum has been parted with, and post the item to the *Debit* of the "Bills Payable" Account in the Ledger because the holder, for the time being, of this Bill Payable has received the money.

Jan. 6. *Sold J. Smith* 1 *bicycle for* £7 10*s*., *upon which he paid £2 on account.*

This, again, is not a single transaction for book-keeping purposes, but two, viz. (*a*) the sale of a bicycle for £7 10*s*. to J. Smith, and (*b*) the receipt of £2 in cash from J. Smith.

To record the sale to J. Smith an entry is made in the Sales Book, *crediting* "Sales" with £7 10*s*. because goods to that value have been parted with, J. Smith being at the same time *debited* in his Ledger account with £7 10*s*. because he has received the bicycle.

In order to record the receipt of the £2 on account the "Cash" column in the Cash Book is *debited*, because the money has been received, and, to complete the entry, J. Smith's Ledger account is *credited* with the like amount because it is John Smith who has paid the money into the business.

Jan. 7. *Bought for cash* 2 *second-hand bicycles at* 15*s*. *each, one of which was sold for cash on the same day for* 25*s*.

This is an example of a "Cash" purchase (2 bicycles at 15*s*. each) followed by a "Cash" sale (1 bicycle at 25*s*.), the two transactions being separate and distinct.

In order to record the purchase for cash of 2 bicycles for 30*s*.—

Credit the "Cash" column in the Cash Book because 30*s*. in cash has been parted with, and *Debit* the "Purchases" Account in the Ledger because goods to that value have been received.

It will be remembered that, in actual practice, "Cash sales" and "Cash purchases" do not pass through the

"Sales" or "Purchases" Journals, these books being reserved for transactions upon credit. If numerous, such Cash sales and purchases are either recorded in special books kept for that purpose, the totals of which are periodically carried into the Cash Book, or they are accommodated in columns specially provided for them in the Cash Book itself, the totals of which are posted monthly to the Ledger.

In order to record the sale for cash of one bicycle for 25*s*. the entry is—

Debit the "Cash" column in the Cash Book with 25*s*. because that sum in cash has been received, and *Credit* the "Sales" Account in the Ledger because goods have been parted with to that amount.

Jan. 7. *Cashed Cheque for* £10 *for Petty Cash purposes.*

This transaction consists of the withdrawal of £10 from the Bank and the placing of it in the Office Cash to be used for Petty Cash disbursements.

The necessary entry is consequently—

Credit the "Bank" column in the Cash Book with £10, representing the withdrawal of the money from the Bank, and *Debit* the "Cash" column in the Cash Book with the same sum, because the Cashier has received the money.

Jan. 8. *Bill Payable* (*F. Lord*) *due this day paid by Bank* (£85).

Credit the "Bank" column in the Cash Book because the Bank has parted with £85, and *Debit* the "Bills Payable" Account in the Ledger because the holder of the Bill Payable, whoever he may be, has received the money.

Jan. 8. *B. Walters paid the balance of his account as at this day, deducting* 5 *per cent. discount, which was disallowed.*

B. Walters owes the firm, as shown by his Ledger account, £27 3*s*., and, doubtless thinking that Messrs. Druce & Robinson would allow it, he has deducted 5 per cent. from this sum (£1 7*s*. 2*d*.), and has remitted a Cheque for the balance, viz. £25 15*s*. 10*d*. Messrs. Druce & Robinson, however, are not disposed to allow this deduction, and the attempt on the part of B. Walters to obtain an unfair discount consequently falls to the ground. All that Messrs. Druce & Robinson do under these circumstances is to record the receipt of B. Walters's

Cheque for £25 15*s*. 10*d* as a "payment on account," leaving the balance still owing standing to B Walters's debit, doubtless at the same time informing him of this fact.

The entry consequently is—

Debit the "Bank" column in the Cash Book with £25 15*s*. 10*d*. because the Bank has received the money, and *Credit* B. Walters's Ledger account with a like amount because he has paid the money to Messrs. Druce & Robinson.

Jan. 9. Bill Receivable given by A. Graves returned dishonoured, a new bill at one month being given for the whole of his account.

The bill first referred to above is for £75, and in addition to this A. Graves owes a further £20, being the balance due from him on his Ledger account.

The above transaction is, as regards its book-keeping record, a triple one, and consists of the following separate transactions—

(*a*) The Bill Receivable for £75 held by Druce & Robinson is assumed to have been handed by them in the ordinary course to their Bankers for collection, and for eventual credit to their account.

(*b*) Upon presentation of the bill by the Bank to A. Graves, payment of it is refused.

(*c*) Messrs. Druce & Robinson presumably at once refer to Mr. Graves, who offers them a fresh bill for the whole amount due from him, *i. e.* (*a*) to cover the dishonoured bill (£75) and (*b*) the balance of his current account (£20), or £95 in all.

These transactions are recorded as under—

(*a*) Upon the bill for £75 being paid into the Bank for collection an entry is passed through debiting the bill to the Bank, in anticipation of its being duly collected.

The entry is therefore—

Debit the "Bank" column in the Cash Book with £75 because the Bank is assumed to have received the money (although in strict practice the assumption may subsequently prove to be incorrect), and *Credit* the "Bills Receivable" Account with a like amount because a Bill Receivable of this value has been parted with.

(*b*) Upon the bill for £75 being returned dishonoured Messrs. Druce & Robinson have immediate recourse for the amount against the acceptor, A. Graves, who becomes their debtor for the cash which should have been paid upon presentation of the bill.

It is consequently necessary to place the £75 to the debit of A. Graves's Ledger account, at the same time the previous debit to the Bank must be reversed, *i. e.* an adjusting entry must be made in the "Bank" column in the Cash Book upon the opposite side to that upon which the previous entry of £75 was recorded, viz. upon the credit side.

The necessary entry is consequently—

Debit A. Graves with £75 because he has become the firm's debtor for the amount of his dishonoured acceptance, and *Credit* the "Bank" column in the Cash Book with £75 in order to reverse the previous debit entry in the Bank Account.

(*c*) A fresh acceptance for £95 is received from A. Graves, due a month after the dishonour of the previous bill.

The entry for this acceptance follows the ordinary lines, applicable in the case of a Bill Receivable being given to the firm. The "Bills Receivable" Account is *debited* and the person (A. Graves) from whom the bill has been received is *credited* with its value just as though he had paid the sum in cash.

The "Bills Receivable" Account is consequently *debited* (in this case through the Journal) with £95 because a Bill Receivable for this amount has been acquired, and A. Graves is *credited* with the like sum because he has given the bill in discharge of his indebtedness.

Jan. 9. *Sold to B. Walters* 20 *brakes at* 2*s. each and* 6 *lamps at* 5*s. each* (*£*3 10*s. in all*).

Credit "Sales" (in the Sales Book for subsequent posting to the credit of the Sales Account) with £3 10*s*., being the value of the goods parted with by the firm, and *Debit* B. Walters with the same sum because he has received the goods.

Jan. 9. *Bought of F. Lord* 6 *dozen lamps at* 3*s. each* (£10 16*s*).

Debit "Purchases" (in the Purchases Book for subsequent posting to the debit of the Purchases Account) with £10 16*s*. because goods to this amount have come into the business, and *Credit* F. Lord with the same sum because he has parted with the goods.

Jan. 10. *Bill Receivable* (*B. Walters*) *duly met* (£125).

This bill will have been paid into the Bank in due course for collection upon Messrs. Druce & Robinson's behalf, and for their credit in current account, and is duly paid upon presentation.

The necessary entry consequently is—

Debit the "Bank" column in the Cash Book with £125 because the Bank has received, firstly the bill, and subsequently the money for it, and *Credit* the "Bills Receivable" Account with the same sum because, firstly, a Bill Receivable held has been parted with, and, secondly, because £125 has been paid by the acceptor of the bill.

Jan. 10. *Sold A. Graves a second-hand bicycle for* 30*s*.

Credit "Sales" (through the Sales Book for subsequent posting to Credit of the Sales Account) with 30*s*., because goods to this value have been parted with, and *Debit* A. Graves with the like sum because he has received the bicycle.

Jan. 11. *Paid Office salaries and wages, drawing and cashing Cheque for* £6.

This transaction, for book-keeping purposes, must be regarded as twofold, and as comprising the following separate transactions, viz.—

(1) The withdrawal of £6 from the Bank and the deposit in the Office Cash of the money obtained by cashing the Cheque so drawn.

(2) The payment of £6 for salaries and wages by the Cashier.

Entry No. 1 is recorded as under—

Credit the "Bank" column in the Cash Book with £6 because the Bank has parted with the money, and *Debit* the "Cash" column in the Cash Book with the like sum because the Cashier has received the money.

Entry No. 2 is recorded as under—

Credit the "Cash" column in the Cash Book with £6 because the Cashier has disbursed the money, and *Debit* the "Salaries and Wages" Account with £6 because this amount has been paid in salaries and wages.

Jan. 11. *Each partner drew in cash* £3 *for private purposes.*

This entry is the exact counterpart of that passed through the books on January 4.

The entry therefore is—

Credit the "Cash" column in the Cash Book with two sums of £3, representing the fact that £6 in money has been disbursed by the Cashier, and *Debit* "J. Druce, Drawing Account" and "M. Robinson, Drawing Account" respectively with £3 because this sum has been paid to each partner.

Jan. 11. *A. Brown accepted a bill at* 3 *months drawn upon him for the balance owing by him at this date.*

The balance owing by A. Brown at this date amounts to £40, and for this sum a bill is drawn upon him by Messrs. Druce & Robinson. A. Brown signifies his promise to pay this bill at its due date by writing his name across it, *i. e.* by "accepting it." The bill thus "accepted" is returned by A. Brown to Messrs. Druce & Robinson and consequently becomes one of their "Bills Receivable."

The necessary entry therefore is—

Debit the "Bills Receivable" Account (by means of a Journal entry) with £40 because a bill for this amount has been acquired by Messrs. Druce & Robinson, and *Credit* A. Brown with £40 because he has parted with a bill for this sum.

All the detailed transactions set out in the question having thus been passed through the books it remains to complete the requisite Double Entry in the case of the "Sales," "Purchases," and "Returns Inwards" by adding up the totals of these respective Journals or Day Books, and by posting them to their appropriate Ledger accounts. Following upon this procedure the balances can be brought down upon all the open accounts in the Ledger, and upon the Cash Book, and a "Trial Balance" (*i. e.* a list of all the balances appearing in the Ledger and the Cash Book) can then be prepared. The total of the

"Debit" balances shown in the Trial Balance should, if the work has been correctly done, agree with the total of the "Credit" balances appearing in the same statement.

The first step towards the completion of the books is the addition of the "Sales," "Purchases" and "Returns" Books and the posting of their respective totals in their appropriate Ledger accounts.

It will be seen that the "Purchases" Book adds up to £33 16*s*., the "Sales" Book to £52 3*s*., and that the "Returns Inwards" Book contains but a single item, viz. £7 10*s*.

These additions having been duly effected, the following postings are then made in the Ledger, viz.—

(1) The total of the "Purchases" (£33 16*s*.) for the period is posted to the *Debit* of the "Purchases" Account. It will be remembered that all the purchases made on credit and recorded in this book have already been posted in detail to the *Credit* of the various persons from whom the goods were bought (*e.g.* the 1 doz. frames bought on January 1 from H. Sweeting, £9, were posted to the *Credit* of H. Sweeting's account because he had disposed of the goods), and the *Debit* posting, to complete the Double Entry, is now effected *in total* in the "Purchases" Account, because goods to this total value have been acquired during the period.

(2) In similar manner the total of the "Sales" (£52 3*s*.) for the period is posted to the *Credit* of the "Sales" Account. This single "total" posting represents the fact that goods to the amount stated have "gone out" of the business, *i.e* have been disposed of, and completes the double entry for all the sales upon credit previously posted in detail to the *Debit* of the various persons to whom they have been dispatched.

(3) The £7 10*s*. appearing in the "Returns Inwards" Book is posted to the *Debit* of the "Returns Inwards Account" in the Ledger; this is done because the goods in question have "come in," and have been added again to the general stock of the business; the corresponding *Credit* posting in A. Brown's account was effected on January 2, and recorded the fact that the goods had been received from him.

The next process to be effected is the ruling off and "balancing" of the Cash Book and of all the Ledger accounts. It will be sufficient, for present purposes, to explain the method by which the Cash Book is "balanced,"

and to indicate thereafter that the same process is applied to all the accounts in the Ledger.

The totals appearing on the *Debit* side of the Cash Book at the close of the transactions previously enumerated are, as set out on that side of the Cash Book, as under—

TOTAL OF "CASH" DEBIT COLUMN.	TOTAL OF "BANK" DEBIT COLUMN.
£47 10*s*. 0*d*.	£1,777 0*s*. 10*d*.

These totals would, in actual practice, be temporarily inserted in their respective columns *in pencil.*

The corresponding totals appearing on the *Credit* side of the Cash Book are—

TOTAL OF "CASH" CREDIT COLUMN.	TOTAL OF "BANK" CREDIT COLUMN.
£33 4*s*. 0*d*.	£847 10*s*. 0*d*.

These totals again would, in practice, be inserted temporarily in their respective columns *in pencil.*

The differences or "balances" between the respective totals of the columns are consequently as under (the total of the "*Credit*" Cash column being deducted from the total of the "*Debit*" Cash column, and the same process being carried out in the case of the "Bank" columns).

"BALANCE" OF "CASH" COLUMNS.	"BALANCE" OF "BANK" COLUMNS.
£14 6*s*. 0*d*.	£929 10*s*. 10*d*.

These "balances" are inserted in the "Cash" and "Bank" credit columns respectively, under the designation of "Balances carried down" (they represent, in the one case, the amount of cash remaining in the Cashier's hands and, in the other, the amount of money left in the hands of the Bankers at the close of all the above-stated transactions); the two "Cash" columns and the two "Bank" columns are then added up and the totals, which, by means of the insertion of the balances, have been made to equal one another as regards each pair of columns, are now inked in.

The "Cash" columns are thus both of them arranged to add up to £47 10*s*., and the "Bank" columns to £1,777 0*s*. 10*d*., and the account is completed by the ruling of transverse lines across the columns in the customary way as shown in the Cash Book given hereafter by way of illustration.

The "balances" previously mentioned are now re-

entered on the opposite side to that upon which they have already been included, and *below* the "ruling off," i.e. *below* the transverse lines already ruled across the money columns.

These balances represent the amounts of Cash in hand and at the Bank at the close of the transactions for the period recorded, and form the balances of the respective accounts which are now ready for inclusion in the Trial Balance. They also constitute the starting balances for the next trading period.

These two balances are then entered in the Trial Balance, according to the side of the Cash Book (in this case the Debit side) upon which they are *brought down.*

Every other Ledger account is treated in similar manner, subject to the following rules—

(1) That in the case of those accounts where the total debit postings exceed the total credit postings the balance "carried down" is necessarily entered on the *Credit* side of the Ledger account, in order to make the sides agree, and the balance "brought down" is entered on the *Debit* side both in the Ledger account and in the Trial Balance.

(2) That in the case of those accounts where the total credit postings exceed the total debit postings the balance "carried down" appears on the *Debit* side, and the balance "brought down" appears on the *Credit* side both in the Ledger account and in the Trial Balance.

(3) That in the case of those accounts wherein the total debit postings exactly equal the total credit postings, all that needs to be done is the addition of both sides, followed by the "ruling off" of the account. There is, in these cases, of course, no balance to enter in the Trial Balance.

The Trial Balance thus constructed, simultaneously with the ruling off of all the accounts, is set out on page 526, and it will be found to "agree" or "balance"; in other words, both the debit and credit columns in this statement add up to £2,487 4*s*., and an inference as to the probable correctness of the book-keeping consequently arises.

At the close of the specimen examination question which has been dealt with in detail above, a conspicuous note is appended to the effect that "*No Profit and Loss Account or Balance Sheet is to be prepared.*" It would seem to be unnecessary to recommend students to pay explicit attention to definite directions of this character,

CASH BOOK

Dr.

Date.				Cash. £	s.	d.	Bank. £	s.	d.
1908.									
Jan.	1	To Balances in hand........	J.	25	0	0	800	0	0
,,	1	,, Cash M. Robinson's Capital Account.......	22				1,100	0	0
,,	1	,, Cash, M. Robinson's Current Account......	8				105	0	0
,,	3	,, J. Smith....................	5				43	0	0
,,	6	,, J. Smith, on Account..	5				2	0	0
,,	6	,, Cheque cashed...........	C.	6	10	0			
,,	7	,, Cash Sale, 1 second-hand bicycle...........	15				1	5	0
,,	7	,, Bank........................	C.	10	0	0			
,,	9	,, B. Walters...................	7				25	15	10
,,	9	,, A. Graves, Bill to Bank........................	3				75	0	0
,,	10	,, B. Walters, Bill..........	3				125	0	0
,,	11	,, Bank........................	C.	6	0	0			
				£47	10	0	£1,777	0	10
1908.									
Jan.	11	To Balances brought down	✓	14	6	0	929	10	10

Cr.

Date.				Cash. £	s.	d.	Bank. £	s.	d.
1908.									
Jan.	1	By Cheque, J. Druce, Goodwill....................	20				550	0	0
,,	1	,, Purchases, 4 doz. crates at 3s........................	14	7	4	0			
,,	4	,, Cheque for Wages........	C.				6	10	0
,,	4	,, Office Salaries and Wages	13	6	10	0			
,,	4	,, J. Druce, Drawing Account	17	3	0	0			
,,	4	,, M. Robinson, Drawing Account	18	3	0	0			
,,	6	,, A. Fisher, cheque on Account	10				25	0	0
,,	6	,, Bill Payable (Unwin)...	12				90	0	0
,,	7	,, Purchases, 2 second-hand bicycles	14	1	10	0			
,,	7	,, Petty Cash..................	C.				10	0	0
,,	8	,, Bill Payable (Lord)	12				85	0	0
,,	8	,, Bill Dishonoured (A. Graves).....................	6				75	0	0
,,	11	,, Cheque for Petty Cash.	C.				6	0	0
,,	11	,, Office Salaries & Wages	13	6	0	0			
,,	11	,, J. Druce, Drawing Account.....................	17	3	0	0			
,,	11	,, M. Robinson, Drawing Account	18	3	0	0			
,,	11	,, Balances carried down..	✓	14	6	0	929	10	10
				£47	10	0	£1,777	0	10

and yet it is the fact that many students *do* (in spite of such notes) append one or other, or both, of the accounts which are clearly stated as not being required, and for which, therefore, it is obvious that no marks can be awarded. In this manner the examinee frequently wastes valuable time through sheer carelessness.

SALES BOOK

1908.			£	s.	d.	£	s.	d.
Jan. 2	A. Brown, 3 bicycles at £7 10s.	4				22	10	0
" 3	B. Walters, 2 bicycles at £8 8s.		16	16	0			
	2 crates at 3s. 6d.			7	0			
		7				17	3	0
" 6	J. Smith, 1 bicycle	5				7	10	0
" 9	B. Walters, 20 brakes at 2s.		2	0	0			
	6 lamps at 5s.		1	10	0			
		7				3	10	0
" 10	A. Graves, second-hand bicycle					1	10	0
	Total credited to Ledger account	15				£52	3	0

PURCHASES BOOK

1908.			£	s.	d.	£	s.	d.
Jan. 1	H. Sweeting, 1 doz. frames at 15s.	9				9	0	0
" 3	A. Fisher, 6 pairs wheels at 30s.		9	0	0			
	Accessories		5	0	0			
		10				14	0	0
" 9	F. Lord, 6 doz. lamps at 3s. each	11				10	16	0
	Total debited to Ledger account	14				£33	16	0

RETURNS INWARDS BOOK

1908.			£	s.	d.	£	s.	d.
Jan. 2	A. Brown, 1 bicycle	4				7	10	0
	Total debited to Ledger account	16				£7	10	0

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			Dr.			Cr.		
			£	s.	d.	£	s.	d.
1908. Jan. 1	Sundries: Dr. To Sundries, viz.—							
	Cash at Bank...........	C.	300	0	0			
	Cash in hand...........	C.	25	0	0			
	Stock	1	650	0	0			
	Furniture and Fittings....................	2	120	0	0			
	Bills Receivable.......	3	200	0	0			
	A. Brown................	4	25	0	0			
	J. Smith	5	45	0	0			
	A. Graves...............	6	20	0	0			
	B. Walters	7	10	0	0			
	M. Robinson............	8	105	0	0			
	H. Sweeting..	9				150	0	0
	A. Fisher..............	10				75	0	0
	Bills Payable........	11				175	0	0
	John Druce, Capital Account............	21				1,100	0	0
	For Assets, Liabilities, and Capital, as at this date		£1,500	0	0	£1,500	0	0
	Allowances Account Dr.	19	2	0	0			
Jan. 6	To J. Smith for Allowance *re* Bicycle damaged in transit...	5				2	0	0
,, 9	Bills Receivable.......Dr.	3	95	0	0			
	To A. Graves, for acceptance received.....	6				95	0	0
,, 11	Bills Receivable...... Dr.	3	40	0	0			
	To A. Brown for acceptance received. ...	4				40	0	0
			£137	0	0	£137	0	0

LEDGER

1 Stock Account 1

Dr. Cr.

			£	s.	d.				£	s.	d.
1908. Jan. 1	To Balance	J.	650	0	0						
		£	650	0	0						

2 Furniture and Fittings Account 2

Dr. Cr.

			£	s.	d.				£	s.	d.
1908. Jan. 1	To Balance	J.	120	0	0						
		£	120	0	0						

3 Bills Receivable 3

Dr.											Cr.
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To Balance— A. Graves...	J.	75	0	0	Jan. 9	By Cash	C.	75	0	0
	B. Walters..	J.	125	0	0	10	,, Cash	C.	125	0	0
,, 9	,, A. Graves, Bill dishonoured...	J.	95	0	0	11	,, Balance carried down	✓	135	0	0
,, 11	,, A. Brown ...	J.	40	0	0						
		£	335	0	0			£	335	0	0
1908.											
Jan. 11	To Balance brought down	✓	135	0	0						

4 A. Brown 4

Dr.											Cr.
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To Balance	J.	25	0	0	Jan. 2	By Returns......	R.	7	10	0
,, 2	,, Goods	S.	22	10	0	,, 11	,, Bills Receivable	J.	40	0	0
		£	47	10	0			£	47	10	0

5 J. Smith 5

Dr.											Cr.
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To Balance.....	J.	45	0	0	Jan. 3	By Cheque......	C.	43	0	0
,, 6	,, Goods........	S.	7	10	0	,, 6	,, Cash	C.	2	0	0
						,, 6	,, Allowance.	J.	2	0	0
						,, 11	,, Balance carried down..	✓	5	10	0
		£	52	10	0			£	52	10	0
1908.											
Jan. 11	To Balance brought down........	✓	5	10	0						

6 A. Graves 6

Dr.											Cr.
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To Balance.....	J	20	0	0	Jan. 9	By Bill Receivable....	J.	95	0	0
,, 8	,, Bill dishonoured ..	C.	75	0	0	,, 11	,, Balance carried down..	✓	1	10	0
,, 10	,, Goods........	S.	1	10	0						
		£	96	10	0			£	96	10	0
1908.											
Jan. 11	To Balance brought down........	✓	1	10	0						

7 — **B. Walters** — **7**

Dr.							Cr.				
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To Balance	J.	10	0	0	Jan. 8	By Cheque......	C.	25	15	10
„ 3	„ Goods........	S.	17	3	0	„ 11	„ Balance carried down..	√	4	17	2
„ 9	„ Goods........	S.	3	10	0						
		£	30	13	0			£	30	13	0
1908.											
Jan. 11	To Balance brought down........	√	4	17	2						

8 — **M. Robinson** — **8**

Dr.							Cr.				
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To Balance	J.	105	0	0	Jan. 1	By Cash..........	C.	105	0	0
		£	105	0	0			£	105	0	0

9 — **H. Sweeting** — **9**

Dr.							Cr.				
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 11	To Balance carried down..	√	159	0	0	Jan. 1	By Balance....	J.	150	0	0
						„ 1	„ Goods.	P.	9	0	0
		£	159	0	0			£	159	0	0
						1908					
						Jan. 11	By Balance brought down	√	159	0	0

10 — **A. Fisher** — **10**

Dr.							Cr.				
1908.			£	s.	d.	1908.			£	s.	d.
Jan. 6	To Cheque......	C.	25	0	0	Jan. 1	By Balance....	J.	75	0	0
„ 11	„ Balance carried down..	√	64	0	0	„ 3	„ Goods	P.	14	0	0
		£	89	0	0			£	89	0	0
						1908.					
						Jan. 11	By Balance brought down	√	64	0	0

11 — **F. Lord** — **11**

Dr.							Cr.				
						1908.			£	s.	d.
						Jan. 9	By Goods.......	P.	10	16	0
								£	10	16	0

12 **Bills Payable** **12**

Dr. Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Jan. 6	To Cheque......	C.	90	0	0	Jan. 1	By Balance—				
„ 8	„ Cheque......	C.	85	0	0		S. Unwin...	J.	90	0	0
							F. Lord.....	J.	85	0	0
		£	175	0	0			£	175	0	0

13 **Wages and Salaries** **13**

Dr. Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Jan. 4	To Cash...........	C	6	10	0	Jan. 11	By Balance carried down	√	12	10	0
„ 11	„ Cash	C.	6	0	0						
		£	12	10	0			£	12	10	0
1908.											
Jan. 11	To Balance brought down	√	12	10	0						

14 **Purchases Account** **14**

Dr. Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Jan. 4	To Cash...........	C.	7	4	0	Jan. 11	By Balance carried down.	√	42	10	0
„ 7	„ Cash...	C.	1	10	0						
„ 11	„ Sundry purchases on credit, as per Purchases Book	P.	33	16	0						
		£	42	10	0			£	42	10	0
1908.											
Jan. 11	To Balance brought down	√	42	10	0						

15 **Sales Account** **15**

Dr. Cr.

			£	s.	d.				£	s.	d.
1908.						1908.					
Jan. 11	To Balance carried down......	√	53	8	0	Jan. 7	By Cash sale....	C.	1	5	0
						„ 11	„ Sundry Sales on credit as per Sales Book...........	S.	52	3	0
		£	53	8	0			£	53	8	0
						1908.					
						Jan. 11	By Balance brought down	√	53	8	0

16 **Returns Inwards** 16

Dr.											Cr.
1908.			£	*s.*	*d.*						
Jan. 11	To Sundry returns as per Returns Inwards Book..	R.	7	10	0						
		£	7	10	0						

17 **J. Druce, Drawing Account** 17

Dr.											Cr.
1908.			£	*s.*	*d.*	1908.			£	*s.*	*d.*
Jan. 4	To Cash	C.	3	0	0	Jan. 11	By Balance carried down	✓	6	0	0
,, 11	,, Cash	C.	3	0	0						
		£	6	0	0			£	6	0	0
1908.											
Jan. 11	To Balance brought down	✓	6	0	0						

18 **M. Robinson, Drawing Account** 18

Dr.											Cr.
1908.			£	*s.*	*d.*	1908.			£	*s.*	*d.*
Jan. 4	To Cash	C.	3	0	0	Jan. 11	By Balance carried down	✓	6	0	0
,, 11	,, Cash	C.	3	0	0						
		£	6	0	0			£	6	0	0
1908.											
Jan. 11	To Balance brought down	✓	6	0	0						

19 **Allowances Account** 19

Dr.											Cr.
1908.			£	*s.*	*d.*						
Jan. 3	To J. Smith ...	J.	2	0	0						
		£	2	0	0						

20 **Goodwill Account** 20

Dr.											Cr.
1908.			£	*s.*	*d.*						
Jan. 1	To Cash (J. Druce)...... ...	C.	550	0	0						
		£	550	0	0						

21 **J. Druce, Capital Account** **21**

Dr.				1908.	Cr.		£	s.	d.
				Jan. 1	By Balance ...	J.	1,100	0	0
						£	1,100	0	0

22 **M. Robinson, Capital Account** **22**

Dr.				1908.	Cr		£	s.	d.
				Jan. 1	By Cash	C.	1,100	0	0
						£	1,100	0	0

TRIAL BALANCE, January 11, 1908

	Dr.			Cr.		
	£	s.	d.	£	s.	d.
M. Robinson, Capital Account..........				1,100	0	0
J. Druce, Capital Account..................				1,100	0	0
M. Robinson, Drawing Account..	6	0	0			
J. Druce, Drawing Account..............	6	0	0			
Goodwill Account............................	550	0	0			
Sales Account				53	8	0
Allowances Account	2	0	0			
Returns Inwards Account..................	7	10	0			
Purchases Account..........................	42	10	0			
Wages and Salaries..........................	12	10	0			
Stock Account..................................	650	0	0			
Furniture and Fittings Account........	120	0	0			
Bills Receivable..............................	185	0	0			
Sundry Debtors—						
J. Smith..................................	5	10	0			
A. Graves.................................	1	10	0			
B. Walters................................	4	17	2			
Sundry Creditors—						
H. Sweeting.......................... ...				159	0	0
A. Fisher.................................				64	0	0
F. Lord....................................				10	16	0
Cash in hand...................................	14	6	0			
Cash at Bank	929	10	10			
	£2,487	4	0	£2,487	4	0

Examination Exercise II

(*1*) From the following Trial Balance of the accounts of a Manufacturing Company (whose authorized Capital consists of 15,000 Ordinary Shares of £10 each) prepare a Trading Account and a Profit and Loss Account for the year ending December 31, 1907, and a Balance Sheet as on that date.

	£	s.	d.	£	s.	d.
(*2*) Capital issued and fully paid up, 9,000 shares of £10 each				90,000	0	0
(*3*) Stock (January 1, 1907)	32,000	0	0			
(*4*) Cash in hand	150	0	0			
(*5*) Cash at Bank	2,900	0	0			
(*6*) Purchases	52,350	0	0			
(*7*) Sales				136,500	0	0
(*8*) Do. Returns	400	0	0			
(*9*) Purchases Returns				750	0	0
(*10*) Manufacturing Charges	11,500	0	0			
(*11*) Manufacturing Wages	28,550	0	0			
(*12*) Salaries	1,500	0	0			
(*13*) Trade Expenses	6,850	0	0			
(*14*) Rates and Taxes	250	0	0			
(*15*) Insurance	190	0	0			
(*16*) General Expenses	2,640	0	0			
(*17*) Discounts (balance)	1,800	0	0			
(*18*) Bad Debts	570	0	0			
(*19*) Interest and Bank Charges	350	0	0			
(*20*) Land and Buildings	22,250	0	0			
(*21*) Machinery and Plant	35,600	0	0			
(*22*) Sundry Debtors	52,500	0	0			
(*23*) Sundry Creditors				21,750	0	0
(*24*) Patents	5,000	0	0			
(*25*) Bad Debts Reserve (January 1, 1907)				2,600	0	0
(*26*) Profit and Loss (balance, December 31, 1906)				750	0	0
(*27*) Reserve				5,000	0	0
	£257,350	0	0	£257,350	0	0

(*28*) Charge Depreciation on Land and Buildings Account at 3 per cent. per annum, and (*29*) on Machinery and Plant Account at 6 per cent.; (*30*) make a reserve of 5 per cent. on the Sundry Debtors for Bad Debts; (*31*) write down Patents Account by 10 per cent.; (*32*) carry forward £90 of Insurance; and (*33*) charge £500 as Directors' Fees; (*34*) the value of the Stock as on December 31, 1907, was agreed at £23,700; (*35*) charge 10 per cent. on net profits as remuneration to the Managing Director; and (*36*) appropriate £2,500 to the Reserve Account, carrying forward the balance.

The next exercise to be worked is set out above. It was given at a well-known examination, and illustrates a type which is to be found in almost every book-keeping examination paper, except those of a very elementary character. That this type of question should frequently occur is not surprising, in view of the fact that it reproduces a problem of everyday occurrence in accountancy practice.

A Trial Balance, already extracted and agreed, is given, from which the candidate is required to prepare a Trading

Account, a Profit and Loss Account, and a Balance Sheet, and, in the construction of these accounts, he is required to embody the various adjustments set out in a note at the foot of the Trial Balance.

It may be remarked, in passing, that some candidates when confronted with this type of question frequently spoil their otherwise correct solutions by omitting one or more of the provisions or adjustments set forth at the foot of the Trial Balance in order that they may be included in the final accounts which the student is asked to prepare. The student will be wise, therefore, in every case to read through with the utmost care the *whole* of such a problem as set in an examination paper, paying special attention to any notes appearing at the foot of it, and carefully ticking off the necessary adjustments as and when dealt with.

As indicated in Chapter XXII, the candidate will be wise, in the author's opinion, to journalize these adjustments, in order to ensure their correct appearance subsequently in the accounts required by the terms of the question.

The various "balances" set out in the above Trial Balance, for the sake of convenience of subsequent description and reference, have been numbered consecutively in the example illustrated, as also have all the other material particulars included in the question. Such numbering does not, of course, appear in a printed examination paper. In answering a question of this type, the various balances and items have, of course, to be extracted for the purpose of being inserted in the candidate's solution successively, although not necessarily in the order set out in the question; it is, therefore, a wise precaution for a candidate to "tick," run through with his pen, or otherwise mark on the printed examination paper supplied to him, each item or balance as he makes use of it in constructing his answer; such a process renders the accidental omission of any material item much less probable.

Having carefully perused the question placed before him for solution, the candidate is in a position to commence his answer. The first account asked for, and the account therefore to be first attempted, is the Trading Account, the principles of the construction of which have already been explained in the first part of Chapter IX.

The candidate must bear in mind the usual form in

which a Trading Account is presented, and it is, as a rule, more convenient to commence its preparation with the items appearing upon the Debit side.

It must be remembered that a Trading Account is a statement showing the results for the *whole* of the financial period under review. The account required in the example before us must thus be headed "Trading Account for the year ended December 31, 1907." It will also be remembered that only one item in the Trading Account, viz. the opening stock of goods on hand, is included in that account under the date of the first day of the trading period (January 1, 1907), and that all the other items in the account, being either the totals of various classes of transactions for the whole period (*e.g.* sales) or the Stock on hand at the close of the period, bear the date of the last day of the period (December 31, 1907).

The first item to be inserted in the Trading Account is the Stock of Goods on hand at the commencement of the trading period.

Item No. 3.

"*Stock, January* 1, 1907 . . £32,000."

This item in the Trial Balance represents the stock of goods owned by the Manufacturing Company at the commencement of the period under review, and must be placed in the Trading Account at the head of the Debit side of the account with the date, January 1, 1907, annexed. The item is debited to the Trading Account for the year because the business has, during that period, had the use of the stock which was left over from the previous trading period, and has doubtless, during the year, disposed of the greater part of it.

Items Nos. 6 and 9.

The next items to be brought into the account are Items 6 and 9, as under—

"*Purchases* . . . . . £52,350."
"*Purchases Returns* . . . £750."

Nature of the items.—These balances are of the following significance, viz. the item "Purchases, £52,350," represents the fact that the Company has, during the year 1907, purchased goods to this amount. The Company whose accounts are in course of preparation is a manufacturing concern, and the total in question con-

sequently represents the cost of commodities purchased in a raw condition, to be subsequently worked up into saleable articles.

Destination.—The balance under consideration must consequently be included in the Debit side of the Trading Account, as the business has had the use of the goods. But for the fact that some of the articles included in the total have been returned to the vendors, the amount would be inserted direct in the principal Debit column of the Account. Seeing, however, in view of Item No. 9, that "returns" have taken place, the item is placed in the "short" Debit column, where the effect of the Returns made is also dealt with in due course.

Item No. 9.

"*Purchases Returns* . . . £750."

Nature of the item.—This item represents the total value of the goods bought, and subsequently returned to the persons from whom they were received; the total is, of course, included in the total "Purchases," since, from a book-keeping standpoint, Purchases and Purchases Returned are kept in separate accounts.

Destination.—Inasmuch as the Purchases thus returned to the respective vendors (£750) are included in the total Purchases (£52,350), and the latter total is to that extent overstated, the overstatement of the Purchases must be corrected prior to the insertion of the latter amount in the Trading Account.

As has already been stated, the Purchases (£52,350) must be entered on the Debit side of the Trading Account, and the Purchases Returns (£750) could, if so desired, be included on the Credit side of the account. It is, however, desirable that the Purchases for the period should appear at their true net figure free from the inflating effect of any Returns that have subsequently been made, and the modern practice, therefore, is to place the Purchases Returns in the Trading Account upon the *Debit* side in the "short" column, immediately underneath the Purchases themselves, which, as explained above, are also entered "short." The Purchases Returns are then *deducted* from the Purchases, and a net figure of Purchases (in this case £51,600) is obtained for extension into the principal Debit cash column of the account.

It is convenient at this stage to consider items Nos. 7

and 8, as their method of treatment is to a certain extent analogous to the above, viz.—

"Sales . . . . . . £136,500."
"Sales Returns . . . . £400."

Item No. 7.

"*Sales* . . . . . . £136,500."

Nature of the item.—This figure represents the total value of the manufactured goods sold during the period; *i. e.* the total of the goods parted with, whether for cash or upon credit.

Destination.—The item must be included on the Credit side of the Trading Account, as the goods have been parted with by the business. In manner analogous to the "Purchases" total, it is entered in the "short" column in order that the Returns made ("Sales Returns, £400," as mentioned below) may be deducted from it for the purpose of obtaining a net figure of Sales for the trading period free from the inflating effect of any Returns.

Item No. 8.

"*Sales Returns* . . . . . £400."

Nature of the item.—This figure represents the total of the goods sold (included in sales) which have been subsequently returned to the Company by the respective persons to whom they were originally sent.

Destination.—The item must be entered in the Trading Account upon the *Credit* side as a *deduction* from the Sales; the net figure of Sales thus arrived at (£136,100) is extended into the principal Credit cash column of the Trading Account, and represents the actual volume of the Sales for the trading period.

So far, as has already been indicated, the items (opening stock, purchases and sales) entered in the Trading Account are such as appear in the Trading Account of every business, whether the business concerned deals in goods manufactured by other parties and purchased from them for re-sale, or whether the undertaking in question be the original manufacturer of the goods it sells.

The Company under review in the question before us is, however, a manufacturing one; and it will be remembered that, in the Trading Account of such an undertaking, all expenses and charges which are directly involved in the production of a finished article in a saleable condition have to be charged, in company with

the cost of the raw materials bought, in the Trading Account, and not in the Profit and Loss Account, in order that a reliable figure of gross profit may be arrived at. All expenses connected with the *selling* of the goods, when manufactured and ready for sale, are chargeable to the Profit and Loss Account; as between the expense of producing goods in a condition ready for sale and the expense of selling such goods, a line of demarcation has to be drawn, and the effects of the distinction so decided upon must be embodied in the accounts.

The two following items (Nos. 10 and 11) are expenses of manufacture, and are therefore brought into the Trading Account, viz.—

"Manufacturing wages . . £28,550."
"Manufacturing charges . . £11,500."

Item No. 10.

"*Manufacturing Wages* . . £28,550."

Nature of the item.—This item represents the cost of the labour expended in working up the raw materials purchased into finished goods; without such labour the finished articles could not have been produced in a condition ready for sale, and the cost of the necessary labour is consequently a proper charge against the selling price obtained for the goods.

Destination.—The item must thus be debited in the Trading Account, as an addition to the cost of the raw materials (Purchases) already included there.

Item No. 11.

"*Manufacturing Charges* . . £11,500."

Nature of the item.—This amount represents the total of the further expenditure (beyond the cost of raw materials and wages) which has been necessary in order to produce finished articles in a condition ready for sale.

Destination.—It is consequently necessary to enter the item in question on the Debit side of the Trading Account, as an addition to the cost of the raw materials and the cost of labour already included.

All "Trading Account" items appearing in the Trial Balance have now been brought into the Account, and it remains to consider the question of the Stock in hand at the end of the period; the Trading Account must be given Credit for the amount of this item prior to ascertaining the amount of the "gross profit" for the period.

Item No. 34, mentioned in the notes annexed to the Trial Balance, sets forth the fact that the stock at December 31, 1907, was agreed at £23,700.

Item No. 34.

"*Stock, December* 31, 1907 . £23,700."

Nature of the item.—This item represents the value of the stock of goods (consisting, doubtless, partly of raw materials and partly of goods in various stages of manufacture) held at the close of the period.

Destination.—The item must be included in the Trading Account on the Credit side, in order that the Gross Profit made may be arrived at. The reason for this proceeding is that the period under review has borne all the cost of purchasing or producing these goods, and therefore takes credit for their value when they are handed on to the next trading period. The Stock on hand will also, at a later stage in the solution of the example, require to be brought, as an Asset, into the Balance Sheet which has to be prepared under date, December 31, 1907.

All Trading Account items have now been entered in the Trading Account, with the exception of the Balance or "Gross Profit," and it remains to ascertain the amount of the latter. When this has been done the Account is closed by means of a transfer of the balance of the Account (Gross Profit or Gross Loss as the case may be) to the Profit and Loss Account.

The items placed in the Trading Account on the Debit side total up to £123,650, and those inserted on the Credit side amount to £159,800; the difference between these sums (£36,150) represents the "Gross Profit" derived from the trading operations during the period and is inserted in the account on the Debit side in order to make the two sides agree. Both sides of the Trading Account will then amount to £159,800.

The Gross Profit is next entered in the Profit and Loss Account upon the Credit side, and forms the first entry in this account, and represents the sum available against which to charge the remaining expenses. In the example given above it forms the only entry on the Credit side of the Account, there being no other "profit" balances to be included.

The next step in the preparation of the Profit and Loss Account is the transfer to this Account of the various

"Expense" and "Loss" balances appearing in the Trial Balance.

The following items are of a similar nature, and may be conveniently grouped in their explanation—

Item No.	*12.*	"*Salaries*	£1,500."
,,	*13.*	"*Trade Expenses* . .	£6,850."
,,	*14.*	"*Rates and Taxes* . .	£250."
,,	*16.*	"*General Expenses* . .	£2,640."
,,	*17.*	"*Discount Account* (*balance*).	£1,800."
,,	*18.*	"*Bad Debts* . . .	£570."
,,	*19.*	"*Interest and Bank Charges*	£350."

These items are all of the nature of "Losses" or "Expenses" arising out of the operation of effecting Sales of the finished goods, and consequently, in each case, they require to be set off against the Gross Profit derived from the sale of the goods; in other words, their *destination* is the Debit side of the Profit and Loss Account as a charge against profits.

Taking the items separately, as regards their nature, "*Salaries*, £1,500," represents the total amount paid to the counting-house staff, travellers and other employees engaged in selling the company's goods. A distinction is here drawn between "Manufacturing Wages," which form part of the cost of *producing* the finished article, and "Salaries," which are charges incurred in the process of *selling* such article.

"*Trade Expenses*, £6,850."—This item doubtless represents the hundred and one small forms of miscellaneous expenditure necessary in any large business undertaking (*e. g.* Boxes, Gratuities, Packing expenses, String, Cleaning, Catalogues, Postages, Telegrams, etc.).

"*Rates and Taxes*, £250."—This item represents money spent in discharging the local rates, etc., levied upon the premises in which the business of the Company is carried on, and the various forms of governmental taxes, *e. g.* land tax, etc.

"*General Expenses*, £2,640."—This item represents a further aggregate of miscellaneous "loss" and expenditure (*e. g.* Repairs, Travelling expenses, Stable expenses, Lighting expenses, Advertising, Exhibition expenses, Audit fee, etc.).

"*Discount Account* (*balance*), £1,800."—This item represents the balance of the Discount Account, *i. e.* the difference between the total discounts allowed and the

total discounts received, the total discounts "allowed" being, in this case, the greater of the two classes. The balance of the account therefore forms a charge against the profits for the period.

"*Bad Debts*, £570."—This item represents the total amount of the debts written off as absolutely "bad," *i. e.* irrecoverable; it must be distinguished from the "Reserve for Bad Debts" mentioned in the footnote, and dealt with later in the Profit and Loss Account; the former item represents actual debts definitely ascertained to be bad, and requiring to be written off, while the latter charge represents an estimated provision considered to be necessary for debts which, though doubtful, have not yet reached the point at which it is necessary to write them off the books.

"*Interest and Bank Charges*, £350."—This item represents the total Interest paid to the various persons from whom money has been borrowed throughout the year, and the charges (doubtless including also some interest) paid to the bank.

Item No. 15.

"*Insurance* . £190."

This item requires special treatment. Footnote No. 32 states "carry forward £90 of Insurance." This instruction arises out of the fact that £190 has been paid during the year for insurance premiums, of which only £100 has, at the date of balancing, run off, leaving therefore a balance of £90, representing insurance prepaid at the end of the year, which balance requires to be carried forward as a charge against the profits of the ensuing year. As on December 31, 1907, this £90 prepaid insurance ranks as an Asset because it is a prepayment from which the succeeding period will derive benefit.

Of the £190 debit balance, therefore, appearing in the Trial Balance as Insurance, £100 requires to be debited in the current Profit and Loss Account, while the balance of £90 must be included as an Asset in the Balance Sheet to be subsequently prepared.

The above "Losses" having been inserted in the Profit and Loss Account, it remains to embody in this Account the effect of the various adjustments and provisions which are called for in the note at the foot of the Trial Balance.

The first adjustments to be referred to are Nos. 28 and

29, wherein the charging of depreciation on Land and Buildings Account (balance, £22,250) at 3 per cent. per annum, and on Machinery and Plant Account (balance, £35,600) at 6 per cent. per annum is directed.

Items Nos. 28 and 29.

Nature of the allowances.—Since the Land and Buildings and Plant and Machinery have been employed during the year for the purposes of the business, it is to be presumed that the former two items have become, by reason of use and "wear and tear," of less value, although it may be said, in passing, that land is not usually depreciated when preparing accounts if it be freehold. The Buildings have, in this case, evidently become of less value owing perhaps to the effects of the atmosphere or other causes upon the structure. In almost every business Plant and Machinery become steadily of less value as they are used, and the rate of wastage ("depreciation") in their case is much greater than in the case of more lasting properties such as Land and Buildings. In the question before us this characteristic difference is exemplified in the higher rate chargeable in the case of Plant and Machinery (6 per cent.) as compared with that provided in the case of Land and Buildings (3 per cent.).

The allowances indicated will be found to amount to the following sums—

Land and Buildings, 3 per cent. per annum for one year on £22,250 = £667 10*s*.

Plant and Machinery, 6 per cent. per annum for one year on £35,600 = £2,136 0*s*.

Destination of the items.—The Profit and Loss Account is debited with both these allowances, representing, as they do, the estimated wastages, through use, of the respective Assets, whilst employed in assisting to make the Gross Profit set out on the Credit side of the account.

The "Land and Buildings" Account in the Ledger would, if shown, be credited with £667 10*s*., and the "Plant and Machinery" Account would similarly be credited with £2,136; these two accounts, however, are not shown in the candidate's answer, as they are not required by the question. The effect of the depreciation allowances made is therefore brought into account when preparing the Balance Sheet subsequently, by deducting them from their respective asset figures. In other words, "Land and Buildings" standing in the Trial Balance at

£22,250 are taken into the Balance Sheet at £21,582 10*s.* (*i.e.* £22,250 minus £667 10*s.*), and "Plant and Machinery" are included at £33,464 (viz. £35,600 minus £2,136).

Item No. 31.

Note No. 31 directs that "Patents" Account shall be written down by 10 per cent. Patents Account stands at £5,000 in the Trial Balance, and the necessary provision of 10 per cent. amounts, therefore, to £500.

Nature of the item.—"Patents Account, £5,000," represents the value of patent rights owned by the Company. Grants of "Letters Patent" confer the exclusive privilege of manufacturing certain inventions; and, as letters patent are only conferred by law for a limited number of years from the date of the grant, the value of any capital expended in purchasing a patent becomes steadily less as the years pass by. It is therefore necessary to reduce the book value of patents every year by writing off a certain sum, representing, as far as possible, the wastage in the "life" of the patent.

Destination of the item.—The Profit and Loss Account is debited with £500, representing the shrinkage in the value of the patent rights owing to effluxion of time; and this charge, to some extent, resembles the depreciation allowances on Land, Buildings, Plant and Machinery previously explained.

The £500 depreciation written off Patents Account is, when subsequently preparing the Balance Sheet, deducted from the £5,000 balance of this account (see Trial Balance), and "Patents" are, therefore, valued in the Balance Sheet at £4,500 (*i.e.* £5,000 minus £500).

Item No. 30.

Item No. 30 directs that a "reserve of 5 per cent. upon the Sundry Debtors (£52,500)" shall be raised.

Nature of the item.—As was explained in Chapter IX a Reserve of this nature is usually created at the end of a trading period in order to cover unascertained losses which may arise owing to the probability that some of the existing debtors will fail to fulfil their obligations.

A Reserve of this nature is expressed most frequently as a fixed percentage of the total book debts outstanding at a given date, as is the case in this particular instance.

Method of arriving at the requisite amount.—The "Sundry Debtors" amount to £52,500, 5 per cent. upon which amounts to £2,625. It is not, however, necessary to

set aside the whole of this £2,625 out of current profits, because *Item No. 25* ("Bad Debts Reserve, January 1, 1907, £2,600") clearly indicates that a Reserve for Bad and Doubtful Debts already exists in the books, to the extent of the £2,600 named, this sum having been set aside out of previous years' profits.

It is, therefore, only the difference between the Reserve *brought* forward (£2,600) and the Reserve to be *carried* forward (£2,625) which requires to be debited to the current Profit and Loss Account as an addition to the existing Reserve.

By thus increasing the existing Reserve to £2,625 there will then be a Reserve amounting to 5 per cent. on the Sundry Debtors standing in the books as directed by the terms of the question.

Destination of the item.—The Profit and Loss Account is debited with £25, representing the additional Reserve to be set aside out of current profits, and a corresponding addition of £25 is made to the existing Bad Debts Reserve of £2,600 as set out in the Trial Balance. The Bad Debts Reserve, as on December 31, 1907, is thus raised to £2,625. If it were necessary to give the Bad Debts Reserve Account in the candidate's answer, the £25 would be shown as a credit entry immediately under, and as an addition to, the pre-existing Reserve of £2,600; as, however, under the terms of the question we are considering, it is not necessary to show this account, the candidate must make an addition to the Bad Debts Reserve Account when transferring it to the Balance Sheet, and must thus include the Bad Debts Reserve at £2,625 when deducting the Reserve from the total of the Sundry Debtors on the Assets side of the Balance Sheet.

Item No. 33.

directs that £500 is to be charged as "Directors' Fees" due at the end of the period.

Nature of the item.—The item represents the fees due and unpaid at the end of the period, arising out of the services rendered by the Directors of the Company during the year.

These fees are consequently a charge against the profits for the period as representing remuneration due for services rendered to the Company; and, as the amount is still unpaid, the Directors need to be shown in the Balance Sheet, to be subsequently prepared, as creditors for the amount of the fees due to them.

Destination of the item.—The Profit and Loss Account is debited with £500 under the designation "Directors' Fees"; while, in preparing the Balance Sheet, £500 is set out as a liability under the heading "Sundry Creditors" (Directors' Fees).

Items Nos. 36 and 35.

Apart from the commission of 10 per cent. on the profits due to the Managing Director, and the £2,500 appropriation to Reserve Account, as directed to be made in footnotes 35 and 36, all the items which required to be entered in the Profit and Loss Account have now been included. The two items above are "appropriations" of the profits made, rather than charges against profits or expenses incurred, in carrying on the business, and thus they should not be included in the Profit and Loss Account proper, but in an "Appropriation" Account at the foot of the Profit and Loss Account. This Appropriation Account is, as its name implies, an account in which the profit made is "appropriated" or divided out, as opposed to an account wherein the details of the amount of the profit which has been made are shown.

It is now possible to close the Profit and Loss Account by inserting an amount on the Debit side sufficient to make the two sides tally. This amount, or "balance," will represent, in the case under review, the **Net Profit** made during the year 1907.

The expenses set forth on the debit side of the Profit and Loss Account add up to £17,888 10*s*., whereas the Gross Profit (the only item) set out on the credit side of the account amounts to £36,150. The difference between these two sums, £18,261 10*s*., represents the Net Profit for the period, and is inserted on the *debit* side of the Profit and Loss Account in order to make the two sides agree.

This amount, representing the Net Profit for the year ended December 31, 1907, is at once carried down to the credit side of the Appropriation Account.

Item No. 26.

The "Balance of Profit and Loss Account, as on December 30, 1906 (£750)," represents the undistributed balance of profit brought forward from the previous year, and this item requires to be placed in the Appropriation Account on the credit side, and must be added to the profits made during 1907. The total thus obtained forms

the amount at the credit of the current Profit and Loss Account, and shows the balance now available for distribution.

The Credit side of the Appropriation Account therefore consists of the following items, viz.—

		£	s.	d.
1907.				
December 31.	Balance brought down, being profit for the year 1907	18,261	10	0
1906.				
December 31.	Balance of profit brought forward from 1906 .	750	0	0
		£19,011	10	0

Items Nos. 35 and 36.

It now remains to consider these two directions, viz. (35) "to charge 10 per cent. on the profits as remuneration to the Managing Director," and (36) "to appropriate £2,500 to the Reserve Account."

Both these items are, as has already been indicated, appropriations of profit made, as opposed to expenses chargeable against profits; they must therefore appear in the Appropriation section of the Profit and Loss Account.

Item No. 35. "Charge 10 per cent. on the profits as remuneration to the Managing Director."

Nature of the item.—The Managing Director is, in the example given, presumably under the terms of his agreement, remunerated in part by a share of the profits earned by the business under his direction. Such an arrangement is a very frequent one, and naturally operates as an incentive to the Managing Director to endeavour to make the undertaking as successful as possible.

The remuneration given to the Managing Director is, of course, based upon the profit for the year 1907, and not, in addition, upon the balance brought forward from the previous year, upon which he has probably already been paid the percentage due to him; the amount now payable to the Managing Director is consequently 10 per cent. upon £18,261 10*s*., viz. £1,826 3*s*.

Destination.—This £1,826 3*s*. must be debited in the Appropriation Account as representing the portion of the profits for the year which is payable to the Managing Director under his agreement, and if the Personal Ledger

Account of the Managing Director were to be shown, this sum would be inserted therein to his credit. This Account is not, however, needed by the terms of the question, and it is therefore necessary for the candidate to bear in mind, when preparing the Balance Sheet, the fact that the commission is unpaid, and that, therefore, the Managing Director needs to be scheduled as a creditor for the amount of his commission under the heading "Sundry Creditors" (Managing Director's Commission), as was the case with the Directors' outstanding Fees dealt with above.

Item No. 36. "To appropriate £2,500 to Reserve, carrying forward the balance."

Nature of the item.—The Directors of the Company have evidently decided to retain £2,500 of the profits made during 1907 permanently in the business, by means of the transfer of this amount to the pre-existing Reserve of £5,000.

This Reserve Account is obviously a general reserve, and is not represented by any specific securities or by any investments effected outside the business. It is practically a specialized balance of Profit and Loss Account, and nothing more; this type of Reserve is known as one which is "invested in the business."

Destination of the item.—The £2,500 is debited to the Appropriation Account, and, if the "Reserve Account" in the Ledger were shown, this £2,500 would appear as an additional credit; but, as this account is not to be given, the candidate must, when preparing his Balance Sheet, add £2,500 to the pre-existing Reserve (£5,000), thus raising the amount of that account to £7,500.

The Reserve Account will thus be shown in the Balance Sheet as under—

Reserve Account.	£ s. d.	
As per last Balance Sheet .	5,000 0 0	
Added during the year. .	2,500 0 0	
		£7,500 0 0

The Managing Director's commission and the transfer to the Reserve Account having thus been debited in the Appropriation Account, the balance of this account (£14,685 7*s.*) is carried down on the credit side. This balance remains for inclusion in the Balance Sheet, as in the accompanying illustration (page 551).

The Trading, Profit and Loss, and Appropriation Accounts having thus been completed, the candidate must next turn his attention to the preparation of the Balance Sheet.

As was explained in Chapter X, the student must adopt some reasonable and recognized order in which to marshal the Assets and Liabilities appearing in any Balance Sheet prepared by him. For the purposes of the question now before us we will adopt that form of Balance Sheet in which the Assets are marshalled in the order of their "non-realizability."

Starting with the "Liabilities" side of the Balance Sheet, the item which should be placed at the head of this column is one which does not appear in the Trial Balance, and does not require to be extended into the principal money column of the Balance Sheet, viz. the "Authorized" or "Nominal" Capital of the Company.

Item No. 1.

Item No. 1 in the note at the head of the Trial Balance records the fact that the "Authorized Capital of the Company consists of 15,000 Ordinary Shares of £10 each."

This statement of fact, although it does not in any way represent the balance of an account, is shown as a matter of information, in the Balance Sheet, on the Liabilities side as under—

	£	*s.*	*d.*
Nominal Capital.			
15,000 Ordinary Shares of £10 each	150,000	0	0

The figures are entered in the "short" cash column, and are not extended into the principal column. A pair of lines are ruled beneath the item to denote that it forms no part of the additions of the figures composing the Balance Sheet.

In completing the Liabilities side of the Balance Sheet (*i. e.* the Debit side), it will be remembered that Liabilities which in the Trial Balance appear on the *Credit* side, are—in the compilation of a Balance Sheet prepared according to the general practice ruling in this country—entered on the *Debit* side. Similarly, Assets (which are *Debit* balances in the Trial Balance) appear on the left-hand, or *Credit* side, of the Balance Sheet.

Item No. 2.

Item No. 2 in the Trial Balance is as under—

	£	s.	d.
"Capital issued and fully paid up, 9,000 shares of £10 each . .	90,000	0	0."

Nature of the item.—This item represents the issued Capital of the Company, *i. e.* the amount contributed, in cash or in kind, by the shareholders of the Company.

Destination.—The item must be included on the left-hand side of the Balance Sheet as a Liability. The business having received this money from the shareholders is regarded as responsible to them for it. It must, however, be borne in mind by the student that, in reality, it is only from a book-keeping standpoint that the Capital of the Company ranks as a Liability, and that shareholders cannot claim repayment of their contributions as a matter of right, except in the case of a liquidation or a general repayment of Capital under the sanction of the Courts. They can, of course, sell their shares to other parties.

The item is included under the heading "Capital issued," the "9,000 shares of £10 each fully paid" being added as a note, and the amount (£90,000) being extended into the principal Cash column.

Item No. 23.

The next unused item appearing in the Trial Balance on the Credit side is No. 23, "*Sundry Creditors,* £21,750."

Nature of the item.—It represents the indebtedness of the Company to its creditors, whether Trade creditors or otherwise, whose accounts were outstanding on the books as on December 31, 1907.

Destination.—The item is entered in the Balance Sheet upon the Liabilities side under the heading of "Sundry Creditors." It is not, however, immediately entered in the principal Debit Cash column, but should appear in the "short" column, for the reason that there are other "Creditors," arising out of the process of closing the books, to be grouped with this item before the total is extended into the Debit column proper.

It will be remembered that a sum of £1,826 3*s.* has been debited (pursuant to footnote No. 35) in the Appropriation Account (see p. 550) as "Remuneration due to the Managing Director." This debit to the Appropriation Account involves a corresponding credit entry in the Managing Director's Personal Account, which credit entry

is brought into the Balance Sheet as an addition to the Sundry Creditors. The "Managing Director's Commission, £1,826 3*s*.," is therefore also entered "short" upon the Liabilities side in the Balance Sheet under the heading of "Sundry Creditors."

It will also be remembered that £500 was debited in the Profit and Loss Account (footnote 33 attached to the Trial Balance) as "Directors' Fees due but unpaid." The Directors are creditors for these fees, and need to be shown in the Balance Sheet among the "Sundry Creditors," as was the case with the Managing Director in respect of his remuneration. The £500 is therefore entered under the heading of "Sundry Creditors" in the "Short" column.

All the amounts due to Creditors have now been included in the Balance Sheet, and the total of the three items entered in the "short" column can consequently be added up and extended into the principal column. The total thus obtained will be found to amount to £24,076 3*s*.

Item No. 25.

Item No. 25 in the Trial Balance ("Bad Debts Reserve, £2,600") does not need considering until the candidate is constructing the Assets side of the Balance Sheet, as it is the practice to show such Reserves as deductions from the item "Sundry Debtors."

Item No. 26.

Item No. 26 in the Trial Balance ("Profit and Loss Balance, December 31, 1906, £750") has already been dealt with in the Appropriation Account.

Item No. 27.

"*Reserve* . £5,000."

Nature of the item.—This amount represents the general reserve existing in the Company's books as on December 31, 1906, *i. e.* the total amount of the profits set aside and permanently retained in the business up to that date.

Destination.—The item is entered upon the debit side of the Balance Sheet under the heading "Reserve Account," with the explanation "as per last Balance Sheet" annexed to the amount (£5,000). The £5,000 is not placed in the principal debit Cash column of the Balance Sheet, but is entered "short," owing to the fact that a further sum of £2,500 has been carried to the

Reserve as on December 31, 1907, which addition requires to be taken into account in due course.

The £2,500 addition to Reserve (note No. 36 in the Trial Balance) has already been debited to the Appropriation Account, and this sum therefore requires to be added to the pre-existing Reserve of £5,000.

The £2,500 is accordingly placed under the heading of "Reserve Account" in the "short" debit column in the Balance Sheet with the explanation "added during the year," and the total of the two items (£7,500) is then extended into the principal column.

The only other item which requires insertion in the Balance Sheet on the Liabilities side is the undistributed balance of the Profit and Loss Account, viz. the balance carried down in the Appropriation section of the account, £14,685 7*s.*

This item is entered direct in the principal debit cash column of the Balance Sheet, with the explanation "Profit and Loss Account (balance)" annexed thereto.

At the annual meeting of the Company, when these accounts are presented to the shareholders, the Directors will submit proposals for the distribution of this available balance, and will ask the shareholders to confirm their proposals by vote in the usual way.

The Liabilities side of the Balance Sheet has now been completed; the total of this side amounts to £136,261 10*s.*, and the credit side, when constructed, should, of course, add up to the same figure.

Turning now to the "Assets" or credit side of the Balance Sheet, the candidate must, by referring to the Trial Balance, carefully pick out those balances which represent Assets; it is necessary for him, at the same time, to remember that various depreciation allowances and reserves have been incorporated in the Profit and Loss Account, and that, therefore, the Trial Balance figures representing certain assets require to be adjusted, in various instances, by the amount of such reserve or depreciation allowances.

The Assets appearing in the Trial Balance are dealt with seriatim as under—

Item No. 20.

"*Land and Buildings* . £22,250."

Nature of the item.—This amount represents the book value, as on December 31, 1907, of the Land and Build-

ings owned by the Company before providing for the depreciation written off for the year 1907.

Destination.—The item must be entered on the Assets side of the Balance Sheet, but inasmuch as a depreciation allowance has been made in the Profit and Loss Account (see footnote 28 in the Trial Balance) it must not at once be extended into the principal column of the Balance Sheet for the full sum of £22,250. The Trial Balance figure of £22,250 is therefore entered "short," and from it is subsequently deducted the depreciation allowance for the year 1907 (£667 10*s.*), the net value of the asset, £21,582 10*s.*, being then extended into the principal column.

Item No. 21.

"*Machinery and Plant* . £35,600."

Nature of the item.—This amount represents the book value of the Machinery and Plant as on December 31, 1907, before providing for the depreciation written off in respect of the year 1907.

Destination.—In this case also the item must be entered "short" on the Assets side of the Balance Sheet, the relative allowance previously made in the Profit and Loss Account for depreciation of Machinery and Plant for the year 1907 (£2,136) being deducted therefrom, also, of course, in the "short" column. The difference between these two amounts, viz. £33,464, represents the estimated book value of the Machinery and Plant as on December 31, 1907, after making due allowance for depreciation, and it is this figure which is extended into the principal column of the Balance Sheet.

Item No. 24.

"*Patents* . . £5,000."

Nature of the item.—It represents the book value of the patent rights owned by the Company (*i. e.* the exclusive right to manufacture certain articles) as on December 31, 1907, before providing for the depreciation written off for the year 1907.

Destination.—This item requires to be entered on the "Assets" side of the Balance Sheet in the "short" column; the depreciation allowance of £500 for 1907, made in accordance with footnote No. 31 on the Trial Balance, must also be placed in the "short" column

immediately beneath the old book value of £5,000 and deducted from it; the net figure thus obtained (£4,500) represents the estimated present value of the patents to the Company for Balance Sheet purposes as on December 31, 1907, and this amount is then extended into the principal column.

Item No. 15.

"*Insurance* . . £190."

Nature of the item.—It represents, presumably, money expended during the year in insuring the Company's premises against loss by fire, in insuring the Company against claims for workmen's compensation, loss through burglary or larceny, and possibly other insurances of various descriptions. A feature which characterizes almost all contracts of this nature is that the insurance policies run from year to year, the premiums thereon being payable annually *in advance, i.e.* at the beginning of the year covered by the insurance.

It frequently happens that, at the date of "balancing," there remains to the credit of the Company the unexpired benefit of several months' protection under various policies of assurance, the premiums upon which have been paid in advance for a year, commencing at some date subsequent to that upon which the books were last balanced. It is therefore only equitable that the trading period under review should not be charged with any greater proportion of the premiums paid in advance than relates to the actual months which have already expired; a just proportion of the premiums so paid in advance should therefore be carried forward to be *charged against the profits of the ensuing period* which is to enjoy the benefit of the protection afforded by the unexpired portion of the policies. In the example given this principle is illustrated; insurance premiums to the amount of £190 have been paid in advance, of which only £100 has run off during the period covered by the accounts, the balance of £90 being, therefore, the proportion of the premiums chargeable to the financial year 1908. These facts have been duly taken into account in charging only £100 of the £190 to the current Profit and Loss Account, and it remains therefore to rank the remaining £90 as an Asset (or rather as a "fictitious asset") on December 31, 1907, as representing the present book value of the premiums for the pro-

portionate periods as yet unexpired, but which are fully covered by the policies already taken out and paid for.

Destination of the £90 Insurance unexpired.—It is entered as if it were an ordinary Asset upon the "Assets" side of the Balance Sheet, being extended in the principal column. It is so treated because, as has been explained above, the succeeding financial year (1908) ranks practically as a debtor to the year under review (1907) for sundry insurance premiums paid in advance upon its behalf.

Item No. 22.

"*Sundry Debtors* . . £52,500."

Nature of the item.—This amount represents the total of the book debts owing to the Company by its customers and others as on December 31, 1907, after all the debts which are hopelessly bad have been written off. Such debts as are considered to be "doubtful" are included in the total of £52,500, the estimated losses upon this type of debt having been duly provided for by means of a Reserve. (Note 30 at the foot of the Trial Balance.)

Destination.—The total of £52,500 is entered on the Assets side of the Balance Sheet, in the "short" column; it is not entered immediately in the principal column owing to the fact that there is in existence a Reserve for Bad and Doubtful Debts which must be taken into account subsequently.

Item No. 25.

"*Bad Debts Reserve* (*Jan.* 1, 1907) . £2,600."

Nature of this item.—This amount represents the Reserve brought forward upon the books of the Company as on December 31, 1906, in order to cover the estimated bad and doubtful debts as at that date.

Footnote No. 30 annexed to the Trial Balance directs that the Reserve for Bad and Doubtful Debts to be carried forward, as on December 31, 1907, is to amount to a sum equal to 5 per cent. on the total debts outstanding at that date, viz. 5 per cent. on £52,500, *i.e.* £2,625. As the pre-existing Reserve already amounted to £2,600, as set forth above, the necessary addition of £25 was made to it by means of a debit entry to the current Profit

and Loss Account, and the balance of "Reserve against Bad and Doubtful Debts Account" thus became £2,625, as on December 31, 1907.

Destination.—This figure would appear in the relative Ledger Account as a credit balance, *i. e.* as a "fictitious" *Liability*. In preparing the Balance Sheet, however, it is shown, in accordance with the usual practice, not on the "Liability" side as a constituent balance, but on the "Assets" side as a *deduction* from the gross total of the Sundry Debtors (£52,500). A net figure (£49,875) is thus obtained which represents the estimated present value of the book debts due to the Company as on December 31, 1907, and this figure is then extended into the principal column of the Balance Sheet.

Items Nos. 34, 4 and 5.

The only other Assets remaining to be included in the Balance Sheet are the value of the "Stock of goods on hand as on December 31, 1907, £23,700" (as mentioned in footnote No. 34), the "Cash in hand, £150" (item No. 4), and the "Cash at Bank, £2,900" (item No. 5).

The Stock is entered direct in the principal column on the Assets side of the Balance Sheet, a memorandum being attached indicating by what authority it has been valued ("as valued by the Company's officials"). Such an explanation is frequently added at the request of the Company's auditors.

"Cash at Bank" is entered on the Assets side in the "short" column, "Cash in hand" being entered immediately underneath it in the same column. The total of the two amounts (£3,050) is then extended into the principal column.

The total of the Liabilities brought into account on the debit or left-hand side of the Balance Sheet amounts to £136,261 10*s*., which accords with the total of the Assets now appearing on the credit or right-hand side of the statement, and, having arrived at this agreement, the candidate may safely assume that his solution of the question set is probably correct.

..NUFACTURING COMPANY, LTD.

TRADING AND PROFIT AND LOSS ACCOUNTS for the year ended December 31, 1907

Dr.

Date	Particulars	£	s.	d.	£	s.	d.
1907. Jan. 1	To Stock on hand........				32,000	0	0
Dec. 31	,, Purchases	52,350	0	0			
	Less Returns	750	0	0			
					51,600	0	0
,, 31	,, Manufacturing Wages..........				28,550	0	0
,, 31	,, Manufacturing Charges				11,500	0	0
,, 31	,, Balance carried down, being Gross Profit for the year...				36,150	0	0
				£	159,800	0	0
1907. Dec. 31	To Salaries				1,500	0	0
,, 31	,, Trade Expenses				6,850	0	0
,, 31	,, Rates and Taxes				250	0	0
,, 31	,, Insurance				100	0	0
, 31	,, General Expenses				2,640	0	0
,, 31	,, Discount Account (balance).				1,800	0	0
,, 31	,, Bad Debts written off.........				570	0	0
,, 31	,, Interest and Bank Charges..				350	0	0
,, 31	,, Depreciation—						
	Land and Buildings, 3 %..	667	10	0			
	Machinery and Plant, 6 %.	2,136	0	0			
					2,803	10	0
,, 31	,, Patents, amount written off.				500	0	0
,, 31	,, Reserve for Bad and Doubtful Debts—						
	Amount reserved, Dec. 31, 1907	2,625	0	0			
	Less ditto, Dec. 31, 1906....	2,600	0	0			
					25	0	0
,, 31	,, Directors' Fees...................				500	0	0
,, 31	,, Balance carried down, being Net Profit for the year				18,261	10	0
				£	36,150	0	0
1907. Dec. 31	To Managing Directors' Commission...........................				1,826	3	0
,, 31	,, Transfer to Reserve Account				2,500	0	0
,, 31	,, Balance carried down.........				14,685	7	0
				£	19,011	10	0

Cr.

Date	Particulars	£	s.	d.	£	s.	d.
1907. Dec. 31	By Sales	136,500	0	0			
	Less Returns	400	0	0			
					136,100	0	0
,, 31	,, Stock on hand......................				23,700	0	0
				£	159,800	0	0
1907. Dec. 31	By Balance brought down				36,150	0	0
					£36,150	0	0
1907. Dec. 31	By Balance brought down	18,261	10	0			
1906. Dec. 31	,, Balance brought from last account............................	750	0	0			
					19,011	10	0
				£	19,011	10	0
1907. Dec. 31	By Balance brought down			£	14,685	7	0

A MANUFACTURING COMPANY, LTD.

BALANCE SHEET, December 31, 1907.

LIABILITIES.	£	s.	d.	£	s.	d.
To Nominal Capital— 15,000 Ordinary Shares of £10 each...............	150,000	0	0			
,, Share Capital issued— 9,000 Ordinary Shares of £10 each (fully paid)....				90,000	0	0
,, Sundry Creditors...........	21,750	0	0			
,, Managing Director for Commission	1,826	3	0			
,, Directors' Fees..............	500	0	0			
				24,076	3	0
,, Reserve Account— As per last Balance Sheet	5,000	0	0			
Added during the year..	2,500	0	0			
				7,500	0	0
,, Profit and Loss Account (Balance)..................				14,685	7	0
			£	136,261	10	0

ASSETS.	£	s.	d.	£	s.	d.
By Land and Buildings........	22,250	0	0			
Less Depreciation	667	10	0			
				21,582	10	0
,, Machinery and Plant......	35,600	0	0			
Less Depreciation	2,136	0	0			
				33,464	0	0
,, Patents.........................	5,000	0	0			
Less Amount written off	500	0	0			
				4,500	0	0
,, Insurance paid in advance..........................				90	0	0
,, Sundry Debtors.............	52,500	0	0			
Less Reserve for Bad and Doubtful Debts..	2,625	0	0			
				49,875	0	0
,, Stock as valued by the Company's officials.....				23,700	0	0
,, Cash at the Bank...........	2,900	0	0			
,, Cash in hand.................	150	0	0			
				3,050	0	0
			£	136,261	10	0

See Notes appended to the Balance Sheet on page 567.

Examination Exercise III

The examination question given below was set at a popular examination, and furnishes a good example of a third type of exercise frequently met with in higher grade book-keeping examinations—

Question.—The Postford Manufacturing Company, Ltd., was registered in 1902. The nominal Capital of the Company consisted of 40,000 5 per cent. Preference Shares of £1 each, and 10,000 Ordinary Shares of £1 each.

No dividend was paid for the year ended December 31, 1905, on either class of share.

The Company's books were closed and balanced, as on December 31, 1906, on which date the Stock in hand was valued at £9,050.

The balances of the Ledger Accounts were as follows—

		£.	s.	d.
(*1*)	Purchases	15,345	0	0
(*2*)	Buildings	24,054	0	0
(*3*)	Fuel	485	0	0
(*4*)	Plant and Machinery	5,654	0	0
(*5*)	Boiler and Heating Plant	592	0	0
(*6*)	Repairs	472	0	0
(*7*)	Loose Tools	1,856	0	0
(*8*)	Office Expenses	362	0	0
(*9*)	Sales	37,950	0	0
(*10*)	Wages (Manufacturing)	13,671	0	0
(*11*)	Discount (debit Balance)	83	0	0
(*12*)	Reserve for Bad and Doubtful Debts (as on December 31, 1905).	250	0	0
(*13*)	Salaries	1,062	0	0
(*14*)	Postages and Telegrams	116	0	0
(*15*)	Rates and Taxes	239	0	0
(*16*)	Travelling	317	0	0
(*17*)	Loan on Mortgage (charged on above premises)	8,500	0	0
(*18*)	Interest and Bank Charges	402	0	0
(*19*)	Directors' Fees	300	0	0
(*20*)	Stock on hand (January 1, 1906) . . .	8,990	0	0
(*21*)	Sundry Creditors	10,960	0	0
(*22*)	Sundry Debtors	9,847	0	0
(*23*)	Goodwill	4,000	0	0
(*24*)	Profit and Loss Account (Credit Balance from 1905)	206	0	0
(*25*)	Preference Share Capital	17,520	0	0
(*26*)	Ordinary Share Capital	8,000	0	0
(*27*)	Unpaid Calls	50	0	0
(*28*)	Bills Payable	2,100	0	0
(*29*)	Bank Overdraft	2,721	0	0
(*30*)	Cost of New Catalogue	300	0	0
(*31*)	Cash in hand	10	0	0

Before preparing the annual accounts the following adjustments are necessary—

Provision for Bad and Doubtful Debts is to be made at the rate of 5 per cent.

Provide for depreciation at the following rates—

Plant and Machinery Account . .	10 per cent.
Boiler and Heating Plant Account . .	10 per cent.
Loose Tools Account	20 per cent.

Write off one-third of the Cost of the New Catalogue, and one-half of the Repairs Account against the current year, carrying the balances of these accounts forward to next year.

Prepare a Trading and Profit and Loss Account for the year ended December 31, 1906, and a Balance Sheet as on that date.

It will be noted that in the above question, as in the case of Examination Exercise II, the candidate is required to prepare the annual accounts of a company or firm, but, in this case, no agreed Trial Balance is given to the student to work from, its place being taken by a schedule of Ledger balances which are not arranged as "debit" or "credit" balances, or classified in any way.

This latter type of exercise obviously takes a longer time to work out than the former; and, in addition to the usual work of preparing the required accounts, the candidate is compelled to use his knowledge and reasoning capacity in determining the nature and significance of each item in the schedule of Ledger balances presented to him to deal with.

When dealing with an exercise of this character some candidates make no attempt to prepare an initial Trial Balance from which to work, but commence at once to prepare the accounts required by the terms of the question. The author is of opinion that this proceeding is a mistaken one, and is often the cause of confusion and serious loss of time. In cases of this sort the short cut is often the longest way round, and the average candidate will, it is thought, gain both time and confidence by preparing, as the first step, an agreed Trial Balance from the figures given him in the question.

In answering a question of this type it is necessary, therefore, to commence by preparing a Trial Balance from the Ledger balances set out above. By mentally tracing the history of each Ledger balance, and the manner in which it would originate, the candidate will arrive at the required Trial Balance as follows—

Item No. 1. "Purchases . . £15,345."

This item represents the total cost of the goods bought during the year 1906 for use in manufacturing the products dealt in by the Company. The goods bought have already been credited, in detail, to the persons by

whom they were supplied, and have been entered in the Purchases Book; the latter has been posted in total to the debit of the Purchases Account in the Ledger. This balance, therefore, must be entered in the *debit* column of the Trial Balance.

Item No. 2. "Buildings . . £24,054."

This balance represents the book value of the Company's Buildings, as on December 31, 1906; in other words, it is an Asset. An Asset can only appear on the debit side of its relative Ledger account; this balance, therefore, must be entered in the *debit* column of the Trial Balance.

Item No. 3. "Fuel . . £485."

This balance represents the total cost of the fuel purchased during the year 1906 for consumption at the Company's works. The purchase price of the fuel will already have been credited in detail to the persons from whom it has been bought, and these purchases have been debited in total to the "Fuel" Account in the Ledger; this account represents the year's expenditure in this direction. The balance must consequently be entered in the *debit* column of the Trial Balance.

Item No. 4. "Plant and Machinery . . £5,654."

This balance represents the book value of the Plant and Machinery belonging to the Company, as on December 31, 1906. In other words, it represents an Asset owned by the undertaking. It must consequently be entered upon the *debit* side of the Trial Balance.

Item No. 5. "Boiler and Heating Plant . . £592."

This balance represents the book value of the Boiler and Heating Plant owned by the Company, as on December 31, 1906. For the same reasons as those which apply in the case of item No. 4, viz. the fact that the Boiler and Heating Plant are Assets, the balance must be inserted in the *debit* column of the Trial Balance.

Item No. 6. "Repairs . . £472."

This balance represents the total sum expended in keeping the Company's various Assets in a state of repair during the year 1906. The cost of these repairs will have been credited, in detail, to the Ledger accounts kept for the persons by whom they were effected (or to the Cash Account if paid for in cash), and a correspond-

ing amount will have been debited in total to the "Repairs" Account in the Ledger. The balance consequently must be included in the *debit* column of the Trial Balance.

The repairs effected during the year 1906 will, apparently, relieve subsequent years of certain expenditure in this direction, because the candidate is directed, in preparing his Profit and Loss Account, to include as a "loss" only one-third of this amount, carrying forward the remaining two-thirds as a "fictitious" Asset to be subsequently written off against the profits of the years immediately following.

Item No. 7. "Loose Tools . . £1,856."

This balance represents the book value of the Loose Tools owned by the Company, as on December 31, 1906. These tools will either have been bought for cash (in which case Cash will have been credited and "Tools" Account will have been debited) or on credit (in which case the vendors' accounts will have been credited and the "Tools" Account debited). The item represents property owned by the firm, *i. e.* an Asset, and the balance is consequently included in the *debit* column of the Trial Balance.

Item No. 8. "Office Expenses . . £362."

This balance represents the total sum expended in the direction of "Office Expenses" during the year. In recording these Expenses "Cash" will have been credited, and "Office Expenses" debited. The balance therefore is a debit one, and requires to be included in the *debit* column of the Trial Balance.

Item No. 9. "Sales . . £37,950."

When a sale upon credit takes place, it will be remembered that an entry is at once made in the "Sales Book," which is subsequently posted in detail to the debit of the purchaser's account in the Ledger. It will also be remembered that, at the date of balancing, the Sales Book is added up, and the total, representing the total value of the merchandise which has "gone out" from the concern during the period, is posted to the credit of the "Sales Account."

Similarly, it will be remembered that "Cash Sales" are debited in the Cash Book (the money having "come in"), and are credited in weekly or monthly totals to the

"Sales Account," to be followed later by the total of the "Credit" sales.

Consequently this balance is a credit one, and requires to be inserted in the *credit* column of the Trial Balance.

Item No. 10. "Wages (Manufacturing) . £13,671."

This balance represents the total sum paid for wages during the year 1906 to the Company's workmen. The cash paid out weekly in wages would be duly credited in the Cash Book, as and when paid, and posted to the debit of the "Wages Account" in the Ledger, in which account the total mentioned above has gradually accumulated. The balance must consequently be placed in the *debit* column of the Trial Balance.

Item No. 11. "Discount (Debit Balance) . . £83."

Here the candidate is told that this balance is a debit one, needless to say, therefore, it must be included on the *debit* side of the Trial Balance.

It will be remembered that a multiplicity of items representing discount allowed and discount received are gradually accumulated in the debit and credit "discount" columns of the Cash Book, and that the totals of these columns are posted periodically to the debit and credit, respectively, of the "Discount Account" in the Ledger. Other items of discount may also be posted to the Discount Account in the Ledger from the Journal, or from other books of original entry. Between the debit and credit totals thus gradually built up in the Discount Account there is naturally a preponderance of either debit or credit entries, in this way a debit or a credit balance results. In the case of the item mentioned above the discounts allowed (losses) have obviously exceeded the discounts received (profits) by £83, and the final debit balance thus comes into being, and must be entered as a *debit* in the Trial Balance.

Item No. 12. "Reserve for Bad and Doubtful Debts (as on December 31, 1905) . . £250."

This Reserve will have been created in past years by one or more transfers from the Profit and Loss Account, the latter account having been debited with the sums so set aside as if they had represented actually ascertained Losses, and the "Reserve for Bad Debts Account" having been credited with the like sums. The item set out above, therefore, represents an amount of Profits retained in

hand for the purpose of covering a certain special type of loss (*i. e.* anticipated Bad Debts); it is thus a "fictitious" Liability.

The balance of the Reserve Account must consequently be included in the Trial Balance on the *credit* side, that being the side upon which the balance, as a liability, appears in the Ledger.

Item No. 13. "*Salaries* . . . . . £1,062."
,, *14.* "*Postages and Telegrams* . . £116."
,, *15.* "*Rates and Taxes* . . . . £239."
,, *16.* "*Travelling* . . . . . £317."

The above four items are similar in character and may be conveniently explained on a common basis.

They all represent the total sums expended during the year 1906 for business expenses under their respective headings. The salaries of the clerks and other employees, the payments made for postages, telegrams, local rates, taxes, and travelling expenses have all been disbursed by the Cashier from time to time; upon their disbursement the Cash Account, Bank Account, or the Petty Cash Account, as the case may be, has been credited in detail, and the appropriate "Expense" Account in the Ledger has been debited. The detailed debits to these accounts have steadily accumulated throughout the year until, at its close, they amount to the sums respectively set out above.

All these items represent debit balances, and must be included in the *debit* column of the Trial Balance.

Item No. 17. "*Loan on Mortgage* (*charged on above premises*) . . £8,500."

This balance represents the Liability of the Company to the person from whom an amount of £8,500 has been borrowed. The fact that a charge has been given upon the Company's premises to secure the repayment of the amount in case of default must not be allowed to obscure, in the candidate's mind, the simple issue in regard to this item, viz. that it is intended to record the fact that the Company has borrowed the sum of money specified, and that, therefore, it is under an obligation to repay £8,500 at some future date.

When the loan was originally contracted the money received will have been duly debited in the Cash Book, and a like sum credited to the lender's Personal Account in the Ledger; the balance set out in the list of Balances

given above represents this credit item, and the amount must, therefore, be included in the *credit* column of the Trial Balance as a liability.

Item No. 18. "Interest and Bank Charges . £402."
,, 19. "Directors' Fees . . . £300."

These balances represent, respectively, the sums disbursed by the Company for "Interest and Bank Charges" and "Directors' Fees" during the year 1906; both items represent "Losses," and are consequently debit balances, and must be included in the *debit* column of the Trial Balance.

Item No. 18 represents the total paid in the shape of interest due on money borrowed, together with the bank charges incurred during the year; these payments will have been duly credited in detail in the Cash Book, as and when made, and will have been debited to the "Interest and Bank Charges" Account in the Ledger. If the item had been designated simply as "Interest" it might conceivably have been either a debit or a credit balance, *i.e.* Interest paid *by* the Company on money borrowed by it or Interest paid *to* the Company on money lent by it; the inclusion of the additional item of "Bank Charges," however, fixes the total balance as a debit one, *i.e.* a "Loss," since bankers do not pay "Bank charges" to their customers, but receive them from them.

Item No. 19 represents the total sum disbursed to the directors by way of remuneration for their services during the year 1906, it is consequently a "Loss," and therefore a debit balance.

Item No. 20. "Stock on hand, January 1, 1906, £8,990."

This item represents the value of the goods in hand at the commencement of the financial period under review; it therefore represents an Asset, and is consequently a debit balance. It will be remembered that, at the end of the preceding trading period, *i.e.* December 31, 1905, an entry must have been passed crediting the Trading (or Manufacturing) Account with the closing Stock then on hand, and debiting the "Stock" Account with the same sum as representing the opening Stock carried forward to the succeeding period, *i.e.* for the year 1906. It is the latter entry which created the present debit balance.

The item, therefore, must be included in the *debit* column of the Trial Balance.

The fact that this Asset is dealt with in the Trading Account and not in the Balance Sheet does not affect the necessity of including it as a debit balance in the Trial Balance which the student is preparing.

Item No. 21. "*Sundry Creditors* . . £10,960."

This sum represents the total amount owing by the Company to the trade and other creditors, as on December 31, 1906. It is thus a Liability, and consequently requires to be included in the *credit* column of the Trial Balance.

Item No. 22. "*Sundry Debtors* . . £9,847."

This item represents the total amount owing to the Company by its trade and other debtors, as on December 31, 1906. It is thus an Asset, and requires to be included in the *debit* column of the Trial Balance.

Item No. 23. "*Goodwill* . . £4,000."

This item represents the cost to the Company of that intangible Asset known as "Goodwill." The cost of this Asset will have been credited in the Cash Account, if paid for in cash, or to the Personal Account of the vendor if purchased from him upon credit, either separately or in company with other Assets upon the transfer of the business to the Company, and a corresponding sum will have been debited to the "Goodwill" Account in the Ledger, from whence it has been extracted in the Trial Balance.

The item, therefore, requires to be placed in the *debit* column of the Trial Balance as an Asset.

Item No. 24. "*Profit and Loss Account* (*Credit Balance from* 1905) . . £206."

The student is here informed that this Balance is a "Credit" one, and it must consequently be placed by him in the *credit* column of the Trial Balance.

The item represents the undistributed balance of profit made prior to December 31, 1905, and carried forward, as on that date, to the accounts for 1906. If the balance had been a debit one it would have represented the balance of the net loss brought forward. Without the addition of a note indicating upon which side of the Ledger the balance appeared the item would have been ambiguous.

Item No. 25. "Preference Share Capital . £17,520."
" 26. "Ordinary Share Capital . £8,000."

These items are similar in character, although the classes of capital to which they relate differ in their respective priorities among themselves.

Both the items represent the total sums received, in cash or in kind, from the shareholders of the Company; whether the shares have been paid for in money or in kind, the Assets acquired, by the issue of the Capital, will have been debited in the Company's books to the various Ledger accounts opened for each particular type of Asset, and the corresponding credit entries will have been made in one or other of the two "Capital Accounts" ("Preference" or "Ordinary") here mentioned.

It will be remembered that when shares are issued for cash the "Share Capital Account" is credited and the "Application and Allotment," "First Call," or other accounts representing the liability of the allottees to the Company are debited. It is the "Share Capital Accounts" that the items in question represent. The Company's shareholders, as a body, are regarded as creditors for the amount of the Capital they have subscribed in the same manner as the partners in a firm are treated as quasi-creditors for the amounts of their respective capitals.

Both balances, therefore, require to be placed in the *credit* column of the Trial Balance.

Item No. 27. "Unpaid Calls . . £50."

It will be remembered that, on a call being made by a Company upon its shareholders, the "Share Capital Account" is immediately credited with the total amount receivable by the Company under the terms of the call, irrespective of whether the money has actually come in or not, and that a "Call Account" (representing the personal indebtedness of the shareholders) is debited with the like total. As and when the calls are actually received they are credited to this "Call Account," the debit balance of which consequently steadily falls, until, when all the calls have come in, the two sides of the account adjust themselves and the "balance" disappears altogether.

Apparently, in the case under review, all the calls have duly come in with the exception of £50, which is still outstanding. This £50 consequently appears in the Ledger as a debit balance upon the "Call Account," and

represents the amount still due to the Company from one or more shareholders; and, as such is the case, the balance requires to be inserted in the *debit* column of the Trial Balance as representing "Sundry Debtors for unpaid Calls."

Item No. 28. "*Bills Payable* . . £2,100."

This item represents the total outstanding liability of the Company, as on December 31, 1906, on the bills drawn on and "accepted" by it, *i. e.* upon bills which, having been drawn upon the Company, have been duly accepted, but have not yet matured for payment.

It will be remembered that, upon the acceptance of a bill, the acceptor immediately credits his "Bills Payable" Account with its face value, and debits the Personal Ledger Account of the person who draws the bill upon him. This balance of £2,100, therefore, represents the balance of the Company's "Bills Payable Account"; it consequently requires to be placed in the *credit* column of the Trial Balance as representing a Liability which, in due course, the Company will have to meet.

Item No. 29. "*Bank Overdraft* . . £2,721."

This item represents a Liability of the Company to its Bankers, and requires to be placed in the credit column of the Trial Balance. It will be remembered that when a company possesses a balance in its favour at its bankers, such balance appears to the debit in its Cash Book; on the other hand, when, as has occurred in this case, the cheques drawn (credit entries in the Cash Book) exceed the debit balance appearing in the "Bank" column in that book, the balance of necessity appears on the other side, and the Cash Book shows a credit balance, representing the Company's liability to the Bank. In other words, the Company's account with its Bankers is "over-drawn."

The item consequently must be entered in the *credit* column of the Trial Balance as a Liability.

Item No. 30. "*Cost of New Catalogue* . £300."

This balance represents the total sum expended, *e. g.* for printing, paper, cost of dies and letterpress, in the preparation of a new catalogue setting forth the particulars and prices of the articles manufactured by the

Company for sale. Such catalogues are usually supplied *gratis* to customers and prospective buyers, and the above balance, presumably, includes the whole of the cost of preparing a new edition consisting of a given number of copies.

All moneys disbursed in this connection will have been credited in detail in the Cash Book, as and when disbursed, and debited in due course to the "Cost of New Catalogue" Account in the Ledger. Any goods supplied on credit for the same purpose will have been credited in detail to the Personal Accounts of the suppliers and debited to the "Cost of New Catalogue" Account in the Ledger.

The balance is consequently a debit one, and represents an "Expense" incurred, and must therefore be placed on the *debit* side of the Trial Balance.

In cases where a new edition of a catalogue entails heavy expenditure, and the number of copies printed will meet the needs of several years, it is customary to spread the expenditure over future years in the same manner in which "Preliminary Expenses" are dealt with. In the case under review it is stated that one-third of the cost of the catalogue is to be written off against the profits of the current year, and that the balance is to be carried forward; this instance is thus an exemplification of the common practice. Consequently, in preparing the Profit and Loss Account £100 only is there debited as an "Expense," and, when preparing the Balance Sheet, the remainder (£200) is scheduled as a fictitious Asset.

Item No. 31. "Cash in hand . . £10."

This item represents the balance of cash in hand (probably in the hands of the petty cashier) as on December 31, 1906; it is therefore an Asset, and requires to be included in the *debit* column of the Trial Balance.

This balance may be either the balance (debit) of the Petty Cash Book or the balance (debit) of the Petty Cash Account in the Ledger, and its source depends upon whether the Petty Cash Book forms part of the main system of Double Entry employed (as illustrated in Chapter IV) or not.

The Trial Balance arising out of the foregoing items is now completed and appears as follows—

THE POSTFORD MANUFACTURING COMPANY, LTD.

TRIAL BALANCE, December 31, 1906

	Dr. £	s.	d.	Cr. £	s.	d.
(1) Purchases Account	15,345	0	0			
(2) Buildings Account	24,054	0	0			
(3) Fuel Account	485	0	0			
(4) Plant and Machinery Account	5,654	0	0			
(5) Boiler and Heating Plant Account	592	0	0			
(6) Repairs	472	0	0			
(7) Loose Tools Account	1,856	0	0			
(8) Office Expenses	362	0	0			
(9) Sales Account				37,950	0	0
(10) Wages (Manufacturing)	13,671	0	0			
(11) Discount Account	83	0	0			
(12) Reserve for Bad and Doubtful Debts (as on Dec. 31, 1905)				250	0	0
(13) Salaries	1,062	0	0			
(14) Postages and Telegrams	116	0	0			
(15) Rates and Taxes	239	0	0			
(16) Travelling	317	0	0			
(17) Loan on Mortgage (charged on above premises)				8,500	0	0
(18) Interest and Bank Charges	402	0	0			
(19) Directors' Fees	300	0	0			
(20) Stock on Hand (January 1, 1906)	8,990	0	0			
(21) Sundry Creditors				10,960	0	0
(22) Sundry Debtors	9,847	0	0			
(23) Goodwill	4,000	0	0			
(24) Profit and Loss Account (Balance from 1905)				206	0	0
(25) Preference Share Capital Account				17,520	0	0
(26) Ordinary Share Capital Account				8,000	0	0
(27) Unpaid Calls Account	50	0	0			
(28) Bills Payable				2,100	0	0
(29) Bank Overdraft				2,721	0	0
(30) Cost of New Catalogue	300	0	0			
(31) Cash in Hand	10	0	0			
	£88,207	0	0	£88,207	0	0

Having thus arrived at an agreed Trial Balance, as above, the candidate will next proceed to prepare the Trading and Profit and Loss Accounts, and the Balance Sheet, as required by the terms of the question.

As these accounts are practically identical in principle, and in method of preparation, with those already dealt with in "Examination Exercise II," appearing earlier in this chapter, it is not necessary to deal in detail with the preparation of the accounts which the student will find appended.

The following items are, however, somewhat different in character from any of those previously deal with, and it may therefore be profitable to consider them briefly.

Item No. 19. "Directors' Fees . . £300."

These fees must appear in the Profit and Loss Account as an ordinary business expense, as presumably the services of the Directors are essential to the successful conduct of the business, the profits of which must, therefore, bear the cost of their remuneration.

Item No. 24. "*Profit and Loss Account* (*Credit Balance from* 1905) . . £206."

This item is not brought into credit in the Profit and Loss Account for 1906 proper; it is entered in the third section (usually called the "Appropriation Account" or "Section") of the Profit and Loss Account; in this section is also entered the Net Profit (£4,053 17*s.*) shown for 1906, according to the Profit and Loss Account for that year (the second section of the Profit and Loss Account on page 566).

The combined figure of Profit arrived at by adding together these two items, viz. £4,259 17*s.*, is shown in the Balance Sheet as a separate item, and represents the amount of profit available for distribution. As these accounts relate to a Limited Company this balance of undivided profit must on no account be merged with the Share Capital figures, but each item must be kept separate in the Balance Sheet. In this respect companies differ from private partnerships in submitting their accounts.

Item No. 25. "*Preference Share Capital* . £17,520."
,, 26. "*Ordinary* ,, ,, . £8,000."
,, 27. "*Unpaid Calls* . £50."

The two former of these balances (Items Nos. 25 and 26) are credit balances, and require to be entered on the Liabilities side of the Balance Sheet under the heading of "Share Capital Issued." They must, however, be entered "short," and a combined total must then be made of them, again in the "short" column. The "Unpaid Calls Account" (£50) is a debit balance, and represents a debt due to the Company from its shareholders, but the item must not be entered on the Assets side of the Balance Sheet. It must be entered "short" under the capital total, as arrived at above, on the Liabilities side of the Balance Sheet, as a *deduction* from the total of the Issued Capital (£25,520), the net figure thus obtained (£25,470) being extended into the principal cash column

on the Liabilities side of the Balance Sheet. This process is followed in order that the Capital actually received by the Company may be clearly shown.

The "Nominal Capital" of the Company, viz. 40,000 Preference Shares of £1 each and 10,000 Ordinary Shares of similar denomination (£50,000 in all), must be shown in the Balance Sheet on the Liabilities side above all the other items, the details being inserted as a *memorandum* merely, and not as a part of the financial statement itself. The total must be entered in the "short" column, and separated from all the other items by means of a double ruling placed underneath it in order that it may be clearly seen that this "Nominal Capital" has not of necessity been issued or paid up. In preparing the Balance Sheet which appears on page 567, the assets have been marshalled in the order of their realizability. As has been previously explained in Chapter X, the assets of most commercial undertakings are set out in this order.

The Profit and Loss Account and Balance Sheet prepared in answer to the question are subjoined, and, subject to the above remarks, are, it is thought, self-explanatory.

THE POSTFORD MANUFACTURING COMPANY, LTD.

Dr. **TRADING AND PROFIT AND LOSS ACCOUNTS for the Year ended December 31, 1906** Cr.

Date		£	s.	d.	£	s.	d.	Date		£	s.	d.	£	s.	d.
1906. Jan. 1	To Stock on hand				8,990	0	0	1906. Dec. 31	By Sales				37,950	0	0
Dec. 31	" Purchases				15,345	0	0	" 31	" Stock on hand				9,050	0	0
" 31	" Manufacturing Wages				13,671	0	0								
" 31	" Balance carried down, being gross profit for the year				8994	0	0								
					£47,000	0	0						£47,000	0	0
1906. Dec. 31	To Salaries				1,062	0	0	1906. Dec. 31	By Balance brought down				8,994	0	0
" 31	" Travelling Expenses				317	0	0								
" 31	" Rates and Taxes				239	0	0								
" 31	" Postage and Telegrams				116	0	0								
" 31	" Office Expenses				362	0	0								
" 31	" Fuel				485	0	0								
" 31	" Discount Account				83	0	0								
" 31	" Interest and Bank Charges				402	0	0								
" 31	" Repairs				236	0	0								
" 31	" Cost of Catalogue (½ written off)				100	0	0								
" 31	" Depreciation—														
	Plant and Machinery, 10 per cent.	565	8	0											
	Boiler and Heating Apparatus, 10 per cent.	59	4	0											
	Loose Tools, 20 per cent.	371	4	0											
" 31	" Reserve for Bad and Doubtful Debts—				995	16	0								
	Amount reserved, 31/12/'06	492	7	0											
	Less " " 31/12/'05	250	0	0											
					242	7	0								
" 31	" Directors' Fees				300	0	0								
" 31	" Balance carried down, being net profit for the year				4,053	17	0								
					£8,994	0	0						£8,994	0	0
								1906. Dec. 31	By Balance brought down	4,053	17	0			
								1905. Dec. 31	" " " from last account	206	0	0			
													4,259	17	0

THE POSTFORD MANUFACTURING COMPANY, LTD.

BALANCE SHEET, December 31, 1906

LIABILITIES.	£	s.	d.	£	s.	d.
To Nominal Capital—						
40,000 5 per cent. Preference Shares of £1 each	40,000	0	0			
10,000 Ordinary Shares of £1 each...............	10,000	0	0			
	£50,000	0	0			
,, Share Capital issued—						
17,520 5 per cent. Preference Shares of £1 each	17,520	0	0			
8,000 Ordinary Shares of £1 each	8,000	0	0			
	25,520	0	0			
Less Calls in arrear.......	50	0	0	25,470	0	0
,, Loan on Mortgage.........				8,500	0	0
,, Sundry Creditors..........	10,960	0	0			
,, Bills Payable	2,100	0	0	13,060	0	0
,, Bank Overdraft.............				2,721	0	0
,, Profit and Loss Account (Balance)..................				4,259	17	0
				£54,010	17	0

ASSETS.	£	s.	d.	£	s.	d.
By Buildings....................				24,054	0	0
,, Plant and Machinery ...	5,654	0	0			
Less Depreciation......	565	8	0	5,088	12	0
,, Boiler and Heating Plant	592	0	0			
Less Depreciation......	59	4	0	532	16	0
,, Loose Tools	1,856	0	0			
Less Depreciation......	371	4	0	1,484	16	0
,, Goodwill				4,000	0	0
,, Expenditure on repairs and Catalogue—Proportion carried forward in suspense				436	0	0
,, Stock as valued by the Company's Officials...				9,050	0	0
,, Sundry Debtors..........	9,847	0	0			
Less Reserve for Bad Debts..................	492	7	0	9,354	13	0
,, Cash in hand				10	0	0
				£54,010	17	0

NOTE.—Every Balance Sheet issued by a Limited Company must bear the signature of two directors, and the auditors' report, or a reference thereto, must be attached. Any Shareholder is entitled to be furnished with a copy of the Balance Sheet at a charge not exceeding sixpence per hundred words (Companies (Consolidation) Act, 1908, sec. 113, subsec. (3)).

CHAPTER XXIV

SUGGESTED SYNOPSES FOR LECTURES ON BOOK-KEEPING

COMMUNICATIONS from teachers reached the author, from several quarters, requesting the inclusion in the present treatise of a few synopses for a course of lectures or lessons upon Book-keeping subjects deemed to be suitable for the preparation of candidates for examinations in the "Intermediate" class.

In order to meet this request the author approached Mr. John L. Rees, A.S.A.A., who is one of the most successful teachers with whom he is acquainted, with a view to obtaining his experience in the matter.

Mr. Rees has kindly supplied the accompanying synopses of a series of twelve lessons (numbered I to XII), which he has found useful in the preparation of his pupils, several of whom have earned marked distinction.

LECTURE I.

Preliminary observations.

Definition of Book-keeping—The art of recording business transactions—No matter what kind of business, the principle is the same. A comparatively easy study—Children can apply its principle to their weekly pocket-money, their small purchases and savings.

Advantages of Book-keeping—A knowledge of one's financial affairs. Test of accuracy, etc. A barometer showing the rise or fall of a business, with a detailed record giving particulars as to each separate part of the business, as well as the result of the business as a whole.

Universal need—Number of frauds, failures, and bankruptcies through laxity in Book-keeping.

Single Entry, with its limitations and drawbacks, in use chiefly by small shop-keepers, but provides no check on the entries. Difficult, if not impossible, to detect fraud and dishonesty when committed—Only "cash" and "personal" accounts kept. Unsatisfactory method of determining results—Too much reliance on memory. "Capital" is ascertained by making list of Assets and Liabilities; and to find Profit or Loss for a period, under this system, necessary to compare present capital with previous capital.

LECTURE II.

The English system of book-keeping in practical work—must not be too involved, nor too expensive. Economize by utilizing first entries as far as possible.

Double Entry, its utility and completeness—not so involved as sometimes supposed. Golden rule: "*For every debit there must be an equal credit or credits, and for every credit there must be an equal debit or debits.*"

Primary books employed, and ruling—elementary and complete forms.

(*a*) Journal—sub-divided—Bought Book, and Sales Book.

(*b*) Cash Book—for Cash and Bank transactions—also Discounts received and allowed.

(*c*) Ledger—to contain a summary of all the entries in the Subsidiary Books under suitable headings.

No need to open cash and bank accounts in Ledger.

Bank Pass Book. Reconciliation Statement—*i. e.* a periodical agreement with Cash Book; make balance agree with Pass Book.

Petty Cash Book—Importance of a good system—Advise "Imprest" System—Explain ruling. How to post the charges shown in Petty Cash Book to Ledger accounts.

To convert Single Entry to Double Entry, journalize all assets and liabilities, and provide for Trading, Nominal and Capital Accounts, as well as Personal Accounts.

Continental Book-keeping—A penalty in some countries for not keeping proper books of accounts, and in many cases *all* transactions have to be passed through the Journal; this book, and not the Ledger as in England, being regarded as the most important book.

LECTURE III.

The Journal, and its uses in modern systems of accounts—(*a*) Opening entries, (*b*) Closing entries, (*c*) Sundry entries, transfers, corrections, etc.

Bought and Sales Day Books—Analysis columns where advisable—

(*a*) Bought or Purchases Book, sometimes called an Invoice, or Invoice Guard Book. (For goods bought on credit.)

(*b*) Sales Book. Sometimes called Day Book. (For goods sold on credit.)

(*c*) Returns Books, Outward and Inward.

Ledger. Different kinds of Ledgers. How to open a Ledger. Order of accounts in Ledger. Tabular Ledgers. Self-balancing Ledgers.

The Trial Balance. How prepared. What its "agreement" signifies.

LECTURE IV.

Bills of Exchange and Promissory Notes. Define—B/E, P/N, Draft, Drawer, Drawee, Acceptor, Endorser. Some advantages of B/E for business purposes—acknowledgment of debt, negotiability of instrument. Explain Bills Payable and Bills Receivable; show rulings of Bill Books; give sample entries and show how to post. Note that when Bill Books are kept, post direct and dispense with Journal.

Equated payment and average due date.

How to treat Bills discounted.

Dishonoured Bills—method of treatment. Contingent liability on Bills. How it should be shown in the Balance Sheet.

Bills must be stamped—impressed—*ad valorem*—except those on demand, which always bear a 1*d*. stamp like a cheque. Explain that a cheque is also a B/E.

Lecture V.

Partnership Accounts.

Formation of Partnerships—Treatment of Cash introduced.

Credit Capital or Goodwill Account as per agreement—No real need of depreciating goodwill, but advisable sometimes.

How to deal with Drawings, Interest on Capital, and division of profits.

Dissolution. Caused by—1. Effluxion of time; 2. Death or bankruptcy; 3. Agreement of partners—necessitating Realization Accounts, and distribution under Partnership Act, 1890.

Lecture VI.

Consignments: (*a*) Inwards, (*b*) Outwards.

Difference of treatment in books.

Joint adventure—Definition. Accounts required. How to deal with profits. Sometimes interest charged daily.

Contracts—Accounts necessary. How to treat uncompleted contracts when yearly statements are made up.

Cost Account—Applicable to certain businesses, and very necessary. Particulars derived from various sources—Analysis of labour, wages, materials, etc. Statistical books reconciled with Ledger.

Lecture VII.

What are Manufacturing Accounts? Trading and Profit and Loss Accounts? Gross and Net Profits?

Stock must be taken at cost, or market price, if latter is lower.

What is turnover? Also percentage of profit on turnover—beware of inflation—deduct all contras in Trading Accounts.

Differentiate between Capital and Revenue.

Difference between—(*a*) Revenue Account; (*b*) Income and Expenditure Account; (*c*) Receipts and Payments Account (Cash Account); (*d*) Trading and Profit and Loss Account.

Branch Accounts.

Lecture VIII.

Suspense Accounts—Definition—Necessity for—Uses and abuses.

Meaning of Bad Debts and Bad Debts Reserve.

Reserves—Essential to provide for all probable losses when preparing yearly accounts.

On Balance Sheet not shown as liability, but deducted from assets.

Reserve Fund *v.* Sinking Fund. Former provides against unknown or possible contingencies. Latter provides against known contingencies, such as redemption of Loan, or re-purchase of leasehold properties.

Reserve Fund—Not merely a surplus shown, but should be represented by investment, either in or out of the concern—preferably, in some cases, outside.

Depreciation. Methods of dealing—(1) Writing off an equal

amount yearly; (2) Writing a percentage off original or diminishing value; (3) Annuity system, by charging interest annually on remaining balance and writing off a certain percentage; (4) Revalue assets and write off difference.

Lecture IX.

Connection between Profit and Loss Account and Balance Sheet.
Preparation of Balance Sheet.
Arrangements for—(*a*) Traders, (*b*) Partners, (*c*) Companies.
Statutory forms for special classes of Companies.
How to marshal the Assets and Liabilities.
Special hints on Balance Sheets.
Appropriation Accounts and Interim Dividends.

Lecture X.

Joint Stock Companies—Formation of Companies.
Share Capital—Nominal, Called-up, Subscribed.
Applications, Allotment, and further calls.
Unpaid Calls and Forfeited Shares.
Loans—Debentures: (*a*) Mortgage, (*b*) Redeemable, (*c*) Irredeemable, and the interest on the same. Issued at: (1) Premium, (2) Discount, (3) Par. Different classes of Shares: Founders, Deferred, Ordinary, Preferred, Cumulative Preference, etc.
Difference between Stocks and Shares.
Preliminary Expenses.
Directors' Fees.
Certain statistical books necessary under the Companies Acts.

Lecture XI.

Explain difference between Double Account and Single Account System in—(1) Form of Statements; (2) Treatment of depreciations and renewals; (3) Fixed and floating assets, and premiums on shares, etc.

Reasons for employing Double Account System—Applicable to some Companies only, such as Railways, Gas, Water, Electric Light, Tramways, etc.

Lecture XII.

Income Tax—A charge levied by the Government on owners of properties, and on income and profits of individuals and companies.

The five Schedules under which the Income Tax is charged—

Schedule A relates to property in lands and buildings.
Schedule B is in respect of the occupation of such lands.
Schedule C comprises interest and dividends payable out of the public funds.
Schedule D is in respect of the profits accruing from trade, property, or interest of money and other annual profits not charged under any other schedule.
Schedule E relates to annuities, salaries, etc., payable out of the public revenue, or by public companies.

Schedule D requires most attention.

The rate in the £ varies from time to time, and is different for "earned" and "unearned" incomes—explain distinction between these.

What is net profit? That shown in the P. and L. Account, plus

certain items charged in the accounts, but not allowed; *inter alia:* interest on capital, partners' salaries, subscriptions to charities (some exceptions), Income Tax paid, and preliminary expenses.

Limited Companies, Partnership and Trading concerns and individuals are, with some exceptions, assessed on a three years' average of profits earned.

Abatement is allowed according to the schedule in force from time to time except to Limited Companies.

The whole question of Income Tax is very involved, and explanation other than the above is perhaps beyond the scope of these examinations.

The above lessons will take the student of Book-keeping over the principal part of the various subjects dealt with in the present treatise. If the author may venture an opinion, however, he would suggest that some of the synopses are, perhaps, too crowded with matter for the limits of a single lesson; and, if further time can be devoted to the subject, the number of lessons may, it is thought, be advantageously doubled.

The author also ventures to append a few short supplementary synopses of suggested lessons (numbered XIII to XVIII); these synopses deal with some further matters which have been explained in the present treatise, and should prove helpful from the more advanced student's point of view.

Lecture XIII.

Self-Balancing Ledgers, desirability of rendering Ledgers "self-balancing"—Sectional Ledgers ("Town," "Country," "Foreign," etc.).

Nature and form of an Adjustment Account.

Effect of interpolating an Adjustment Account in a sectional Ledger is the rendering of that Ledger "self-balancing."

Necessity of adhering to Double Entry principles in regard to Adjustment Accounts, consequent creation of contra-Adjustment Account in General Ledger.

The whole system, so to speak, "Quadruple Entry."

The uses of the General Ledger as a means of preparing Balance Sheets readily, and its limitations in regard to such uses.

Bankruptcy, short outline of procedure, forms of Statements of Affairs and Deficiency Accounts.

Private Arrangements, Deeds of Arrangement, short outline of procedure, the execution of a Deed of Arrangement an act of bankruptcy, effect of this upon distribution among creditors.

Private Arrangements and Bankruptcy proceedings compared.

Lecture XIV.

Branch Accounts—

1. Where all branch books of account kept at Head Office;
2. Where branch books of account kept at Branch itself.

Relation of Branch and Head Office *inter se* that of debtor and creditor, transfers between Branch and Head Office, and *vice versa*

Preparation of Branch and Head Office Profit and Loss Accounts and Balance Sheets independently and their subsequent combination.

The system of invoicing goods to Branches at selling price.

Treatment of items in transit between Head Office and Branch at date of balancing.

Departmental Accounts, their uses and objects.

Methods of showing Departmental profits separately.

Dissection and apportionment of expenses as between Departments—

(1) Direct expenses capable of individual allocation or dissection (*e. g.* wages);

(2) Indirect expenses not capable of individual allocation (*e. g.* rent).

Departmental Trading Accounts and Profit and Loss Accounts.

The Debtors and Creditors Ledgers are usually kept in one set for the common use of all departments.

Lecture XV.

Foreign Branch Accounts and Foreign Currencies.

Brief explanation of foreign monetary systems, the Latin union, the mark, the florin, the rouble, the dollar (Mexican and U.S.A.), the rupee.

Difference between "gold standard" countries and those using the "silver standard."

Method of treatment of transactions in foreign currency as far as Head Office books are concerned—

(1) When the rate of exchange of the foreign currency is reasonably stable;

(2) When the rate fluctuates.

Method of converting Foreign Branch Trial Balance into sterling in both these cases; rules for converting (*a*) fixed assets, (*b*) floating assets and liabilities, (*c*) profit and loss items, when exchange is of fluctuating nature.

Method of keeping Foreign Branch Ledger in England in foreign currency; the conversion of items separately into sterling as opposed to their conversion *en bloc* at the close of a trading period.

Lecture XVI.

Tabular or Columnar Book-keeping, general definition and objects—

1. Columnar Cash Books.
2. Columnar Journals.
3. Columnar Ledgers (two forms).
4. Columnar Books of a Statistical Nature (*e. g.* Joint Stock Companies' Share and Transfer Registers).

Limitations of the Columnar System of Book-keeping.

Partnerships and Joint Stock Companies compared.

Limited Partnerships; loans to partnerships in exchange for a share of the profits.

Statistical books compared with Books of Account.

Some comparisons—

1. Sales, consignments, goods sent out on sale or return and on the hire-purchase system.
2. Single and Double Entry.

3. Single and Double Account systems.
4. Shares and Stock.
5. Shares and Debentures.
6. Trial Balance and Balance Sheet.
7. Balance Sheets and Statements of Affairs.
8. Receipts and Payments Accounts and Income and Expenditure Accounts.

LECTURE XVII.

Nature and objects of a Bank.

The Bank of England, the Bank Return and the Bank Rate.

The characteristics of a "negotiable instrument," and its varied uses.

Inland Bills, Foreign Bills, Documentary Bills.

The "discounting" of Bills of Exchange.

Cheques, to "bearer," to "order," "open," and "crossed"; special forms for "crossing."

"Not Negotiable" Cheques; "Finance" or "Accommodation" Bills.

Liability of parties upon Bills of Exchange, protest and noting.

The discount rate and its variations.

Promissory Notes and Bank Notes.

LECTURE XVIII.

Royalties on books, songs, patents, etc.

Royalties in connection with minerals.

Nature and characteristics of coal mining royalties, minimum or dead rents, short workings and their recoupment.

Limitation of the period allowed for the recoupment of short workings.

Treatment of the foregoing in the books of the lessee.

Forms of published accounts, reasons for the non-publication of detailed Trading Accounts by public companies, publication of accounts in a condensed form, statutory forms for published accounts.

CHAPTER XXV

THE BOOK-KEEPER'S COMPENDIUM

Abstract Statement = Abs. Sta.

Accommodation Bill.—A bill drawn by one party, accepted by another, and sometimes endorsed by a third party, without any real transaction occurring between them. Such a bill is designed solely for the purpose of being discounted by one of the parties to it for the purpose of providing him with ready money. Accommodation Bills are naturally regarded with disfavour by bankers, and would be discriminated against in a batch of bills presented for discount if their nature were apparent.

Account.—A narrative of financial or commercial transactions, showing their effect. "*Ledger Accounts*" are the various sections of a Ledger, showing, in concise form, the trader's dealings with persons, in things, or in regard to profits or losses, and their effect.

Account Current.—A copy of a Ledger account kept by a trader for any particular person, rendered by the trader to the person with whom he has dealt, or *vice versa,* at periodical intervals, *e. g.* quarterly, half-yearly, or yearly. A Current Account between merchants frequently bears interest, the method of calculating which is explained on page 221. In banking, a *Current Account* is one kept by a banker for a customer, the balance of which, or any part of it, is repayable on demand. It differs from a "*Deposit account,*" the balance of which is only repayable after a stated period of notice of withdrawal (frequently 7 days). Interest is allowed on Deposit Accounts but not on Current Accounts. An **Open Account Current** is one the balance of which has not been agreed upon between the parties. An **Account Stated** is one the balance of which has been agreed upon between the parties to it. **Account Rendered** is an expression used when the balance of an account set forth in detail in a previous statement is brought forward on a statement of later date, *e. g.* "To account rendered, £35."

Account Days (or Settlement Days).—Certain days fixed at periodical intervals by the Committee of the Stock Exchange for the adjustment of bargains entered into by members of the Stock Exchange. Two "Account Days" are fixed to occur in each calendar month for the settlement of bargains in general securities—one occurring about the middle of the month and the other towards its conclusion. Special monthly "Account Days" are set apart for the settlement of bargains in Consols and other Government securities. These days are usually fixed at or about the beginning of each calendar month.

Accountant.—A person skilled in the art of recording financial transactions, and of showing their result. A *Professional Accountant* is one who, as a person skilled in accounts, undertakes to advise as regards systems of book-keeping, and to carry them out on behalf

of his clients. Owing to the fact that his calling makes him conversant with accounts in all their varying relations, a Professional Accountant is usually employed in matters which are not, strictly speaking, accounts pure and simple, but which are closely related thereto, *e. g.* the auditing of accounts kept by others, the winding-up of insolvent estates, investigations and inquiries generally of an accounting nature. The two principal bodies of Professional Accountants in England are the Institute of Chartered Accountants in England and Wales (members of which body are styled Chartered Accountants) and the Society of Incorporated Accountants and Auditors (members of which are styled Incorporated Accountants). Three "Chartered" bodies of Accountants exist in Scotland, and one in Ireland; members of these bodies are styled Chartered Accountants.

Act of Bankruptcy.—An act falling within a prescribed class of acts done, or suffered to be done, by a debtor, upon which an English court of law will make a Receiving order against the debtor, a condition of insolvency being presumable from its occurrence. (For details, see page 423.) The levying of an execution against a debtor, and his suspending payment, are typical "Acts of Bankruptcy."

Administration, Letters of.—If a person dies without leaving a valid will, some one (usually a relative chosen because of kinship with the deceased, or, failing a relative, a creditor) is appointed by the High Court of Justice (Probate Division) to "administer" (*i. e.* realize and distribute) the deceased's estate according to the manner prescribed by law. This includes payment of the deceased's debts out of the proceeds of his property, and distribution of the remainder among the persons entitled to it. The grant of the right to "administer" given under the seal of the Court is known as the "*Letters of Administration*," and forms the document from which an "administrator" derives his right to deal with the deceased's property. If a person dies leaving a will in which no executors are named, a relative or other person may be appointed by the Court as "administrator" to carry out the directions of the will (*Administrator cum testamento annexo*) and in many other cases where there is a hiatus in the winding up of a deceased's estate an administrator can be appointed. An administrator must give security, and cannot act until Letters of Administration have been granted to him; his position, therefore, differs from that of an executor under a will, who need not give security, and can act immediately upon death of the testator (though he cannot prove his right to act until he has obtained a grant of probate of the will from the Court).

Advice.—A communication containing the information that a particular transaction has taken place, or is about to take place. A written communication advising an act or transaction is sometimes termed an "**advice note,**" *e. g.* advice note setting out the weights of goods for shipment.

Affidavit.—A statement made in writing, and upon oath, before a Commissioner legally appointed to administer oaths. A person knowingly swearing an untruth in an affidavit is guilty of the crime of perjury. *Statutory declarations* are written statements solemnly and sincerely declared by the maker to be true before a functionary authorized to receive such declarations; the consequences of making false statutory declarations are the same, in point of law, as those of falsely swearing an Affidavit.

Agent.—A person appointed by another person (the "principal") to perform specified acts on his behalf. By the acts of an Agent performed within the scope of the authority given him the "principal" is as much bound as if he had done them himself, and they are ordinarily as valid as acts personally performed by him.

Agreement.—In law, a contract or bargain between parties. Agreements may be made (1) verbally, (2) in writing "under hand" (*i. e.* signed by the parties thereto), (3) in writing "under seal" (*i. e.* signed and sealed by the parties thereto). Many forms of contract or Agreement require to be embodied in a written document. An Agreement "under seal" is of higher legal standing than an Agreement "under hand"; the latter needs consideration (*i. e.* the exchange of values) on both sides, the former does not.

Amalgamation.—This word is used commercially in relation to Companies to express the combination of two or more independent concerns into one undertaking.

Amortization.—This term implies in book-keeping the gradual writing off of a balance or of any particular class of expenditure. It is used in relation to expenditure rather than to tangible assets —the term "depreciation" being employed in regard to the latter with an almost identical meaning. *Examples.*—"Amortization of Capital Expenditure," "Depreciation of Plant and Machinery."

Annuity.—A payment made yearly. "**Perpetual**" Annuities are those which continue to be paid yearly for an indefinite period. Annuities "**for fixed terms**" are those payable yearly for a stated number of years. "**Life**" Annuities are those which are payable during the life of the annuitant. The Government and the leading life assurance offices will grant to any person an Annuity for the remainder of his or her life upon the payment of a fixed capital sum, based upon the amount of the Annuity desired, and the age at which it is granted, or at which it is to commence to be paid. This forms a convenient mode of financial provision in the case of elderly persons possessed of a moderate capital sum, and without other persons dependent upon them—a higher rate of income being obtainable than would be possible from investment in Stocks (an advantage which is natural seeing that no capital is ever returned); the annuitant, moreover, is relieved from anxiety as to his investments. "**Deferred**" Annuities are Annuities payable from a stated *future* date until death occurs—the purchase money being paid from the present time until the commencement of the Annuity, either in a lump sum, or in periodical instalments. The purchase of a deferred Annuity to commence at (say) age sixty by quarterly payments from now until that date is a convenient way for a young man or woman to acquire an old age pension with a minimum of inconvenience as regards payments.

Apportionment.—A division into parts; the term is employed in accountancy circles to indicate the division, in the case of a deceased person's estate, of the income received by his executors into "income accrued, due prior to the date of death" (which is part of the estate capital), and "income accrued, due after the date of death" (which forms part of the "income" of the estate). To allow of this being done, a special Act of Parliament, known as the "Apportionment Act, 1870," was passed, which made all such income accrue due "from day to day." Prior to the passing of the above Act, such Apportionment was not possible in a legal sense.

Appreciation.—Increase in value—the converse of "depreciation."

The term is usually employed to indicate an increase of a more or less spontaneous nature in the value of an asset; *e. g.* the increase in the market value of Stock Exchange securities. The profit shown by the Appreciation of assets should not, in the case of a joint stock company, be divided among the shareholders until the assets have been sold, and the profit actually realized.

Arbitrage.—A term employed in financial circles to indicate the practice (frequently indulged in) of remitting money from one place to another in an indirect or circuitous manner instead of remitting it direct. It is frequently possible to remit money in this indirect manner at a fractionally cheaper cost than that of a direct remittance; *e. g.* a banker wishing to remit money by cable from London to Berlin may find it cheaper to remit the money from London to New York, and to have it remitted thence to Berlin direct, than it would be to purchase in London a direct cable transfer upon Berlin. The term is also employed in Stock Exchange circles to indicate the purchase of certain securities upon one Stock Exchange, and their simultaneous sale, at a fractional profit, upon another Stock Exchange; *e. g.* the purchase of Consols in Dublin and their immediate sale in London. By the operations of "**arbitrageurs**" the prices of drafts, cable transfers, and other forms of international remittance, as well as the quoted prices of securities on different Exchanges, are brought into harmony one with another. The telegraph, of course, plays an important part in all such transactions, which, indeed, without such facilities would hardly exist.

Arbitration.—The reference, by the parties to a dispute, of the matter at issue to a third party (termed an **Arbitrator**) for decision by him, instead of embarking in litigation. Settlement of commercial disputes by Arbitration is of frequent occurrence. The arbitrator can be a business man acceptable to both parties, and the matter may be concluded expeditiously and without the heavy expense involved in litigation. Professional accountants are very frequently appointed as arbitrators. Sometimes each party to the dispute nominates an arbitrator, and the arbitrators then appointed select a third party to act with them in case of their differing; such third party is termed an "**Umpire.**" The decision arrived at by arbitrators is termed their **Award.** If the submission to arbitrators has been made a rule of court, the award of the arbitrators may be enforced, if necessary.

Arrangement, Deed of.—A document setting out details of an agreement arrived at between a debtor and his creditors. The chief object of such an Agreement is the avoidance of the publicity attached to bankruptcy proceedings (see Chap. XX, p. 423).

Articles of Association.—The regulations governing the internal management of a company, and prescribing the way in which its chief officials are to perform their functions. A company can adopt its own "special Articles of Association," and can alter them as it desires; if, however, it has not elected to have its own form of "Articles," a series of regulations annexed to the Companies (Consolidation) Act, 1908 (Schedule I), and known as "Table A," apply to it, and will govern its internal working.

A/S = Account Sales.

Assets.—Property of every description. Formerly the word was restricted in its commercial meaning, but is now broadly applied to all property available for the discharge of liabilities which can be converted into money or money's worth.

Assignment.—The transfer of property from one person to another—the latter party being termed the "**Assignee.**" (For "Deed of Assignment," see Chap. XX, p. 424.)

Attorney.—A person appointed by another person (the principal) to perform acts on his behalf; the word has the same signification as "agent."

Attorney, Power of.—A legal document appointing any person to be the Attorney for another person, either generally, or for the performance of some matter or matters specified in the document.

Audit.—The verification of accounts by an independent person. Private firms frequently submit their books to Audit by professional accountants. In the case of all joint stock companies, an Audit is obligatory. Most public bodies and municipal corporations are also compelled to appoint auditors. The auditor of a joint stock company, incorporated under the Companies (Consolidation) Act, 1908, must report to the shareholders as follows:—Sec. 113 (2), (*a*) whether or not they have obtained all the information and explanations they have required; and (*b*) whether, in their opinion, the balance sheet referred to in the report is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanations given to them, and as shown by the books of the company.

Averages.—In addition to expressing the arithmetic mean the term "Averages" has become of technical use in connection with marine insurance. Losses arising out of shipping disasters are termed either "total losses" or "partial losses." If the ship insured is (1) destroyed, or (2) irreparably damaged, the loss is a "total" loss. On the other hand, partial losses consist of damages or losses which, as the term implies, do not involve the whole ship or its cargo. Such losses are termed either "Particular Average" or "General Average" losses. A **Particular Average** is one arising from the perils of the sea, and which falls solely on the owner of the goods involved, and for which he has no right of contribution from others interested in the venture. A **General Average** is the term employed to indicate the common contribution made by all parties in a venture, in cases where losses have been sustained owing to the necessary sacrifice of a portion of the cargo or of the ship's gear, in order to insure the safety of the ship and the remainder of the cargo. In order to claim justification, the sacrifice involved must have been essential to the avoidance of a *total* loss. In arriving at the contributions due under General Average, the loss incurred is divided *pro rata* among all parties. Salvage charges may also, in certain circumstances, be treated as partial losses.

Award.—See "Arbitration."

Bank Post Bills (B.P.B.).—Bank drafts, drawn by one office or branch of the Bank of England upon another of its offices or branches, usually payable at 7 or 60 days after sight. They form a convenient method of remitting money from one part of the country to another, and are issued to any person without charge. Their use has to a great extent been superseded in modern times by the introduction of the cheque system of making payments, and by the employment of bank drafts, issued by the numerous large joint stock banks.

Bank Rate.—See "Bank Return."

Bank Reserve.—See "Bank Return."

Bank Return.—The statement of its financial position published by the Bank of England on Thursday in each week pursuant to the Act of Parliament, 7 and 8 Victoria, cap. 32 (Bank Charter Act). The Return is in the form of a twofold balance sheet, corresponding to the statutory twofold division of the Bank's business. After the passing of the Bank Charter Act the Bank was divided into two departments, viz. the Issue Department (for the issue of notes and the custody of the assets held against them) and the Banking Department (conducting a general banking business). The Issue Department may only issue notes against the British Government Debt and similar securities to the extent of slightly over £18,000,000. Against any notes issued in excess of this sum, gold (either in the form of coin or bullion) must be held. The Issue Department is thus in theory automatic. The Banking Department conducts its business just as any other bank does, and holds its cash balance against its liabilities to depositors, partly in the form of coin, and partly

BANK OF ENGLAND

AN ACCOUNT pursuant to the Act 7 and 8 Vict. cap. 32, for the Week ending on Wednesday, the 28th day of July, 1909.

Issue Department

	£		£
Notes Issued	56,176,040	Government Debt	11,015,100
		Other Securities	7,434,900
		Gold Coin and Bullion	37,726,040
		Silver Bullion	—
	£56,176,040		£56,176,040

Dated the 29*th day of July*, 1909.

J. G. Nairne, *Chief Cashier*.

Banking Department

	£		£
Proprietors' Capital	14,553,000	Government Securities	15,365,672
Rest	3,396,331	Other Securities	29,019,076
Public Deposits (including Exchequer, Savings Banks, Commissioners of National Debt, and Dividend Accounts)	8,524.857	Notes	26,327,760
Other Deposits	45,744,306	Gold and Silver Coin	1,529,629
Seven Day and other Bills	23,643		
	£72,242,137		£72,242,137

Dated the 29*th day of July*, 1909.

J. G. Nairne, *Chief Cashier*.

in the form of notes issued by the other department of the Bank, *i. e.* the Issue Department. The Banking Department depositors are, in the main, the great joint stock banks of the Kingdom, and upon the Bank's ability to pay them their deposits depends to a great extent their ability to satisfy their own depositors throughout the length and breadth of the country. The periodical variations in the proportion of cash held by the Bank as against deposits are thus followed with the greatest interest by the banking community, and all financial interests connected therewith. A form of "Bank

return" is annexed. In normal times the upper portion (the Issue Department's return) can be disregarded, as the department whose position it embodies is purely automatic in its action. The lower half (the Banking Department's Return) is the section around which the chief interest centres. In the Return illustrated the liability to depositors amounts to slightly over £54,000,000, against which liability notes and coin are held to the amount of over £27,000,000. The ratio of cash held (the "**Bank Reserve**") to deposits is thus over 50 per cent, which is a high percentage. As this ratio of cash to deposits falls, the Bank of England, in self-defence, raises the rate of interest (the "**Bank rate**") charged by it for discounts and loans, and the other banks follow its example, either from choice or necessity. Similarly, when its ratio of cash to deposits is high the Bank rate falls, and loanable capital throughout the country becomes cheaper. The position of the "Bank rate," the "Bank Returns," and the "Bank reserve" is thus of vital importance to the mercantile community, in consequence of the fact that the operations of modern commerce are conducted to so large an extent upon borrowed capital.

Banker's Drafts (Bank Drafts).—Bills of Exchange drawn by one banker upon another. They are used in commerce as a means of remittance, especially for the remittance of money from one country to another. Almost any bank will sell, either to its customers or the public, a draft drawn on any place in the U.K. or abroad, and the draft may be made payable to the person obtaining it, or to any other person designated by him. For inland Banker's Drafts a commission is sometimes charged, but in the case of foreign or colonial Bank Drafts the drawing banker's remuneration usually takes the form of a small difference obtained by him in the rate of exchange; or the interest obtained by him for the time the money remains in his hands.

Bill of Lading (B/L).—See page 196.

Bill of Sale (B/S).—A document transferring personal property from one person to another—commonly given as security for a loan. When a Bill of Sale is given as security for a loan the latter must not be less than £30, the Bill of Sale must be in a prescribed form and must be registered at a prescribed public office. The goods remain in the possession of the borrower until he fails to comply with the terms upon which his loan was contracted, and the lender can then seize and sell the goods.

Bills of Exchange (B/E).—See Chap. XII, page 190.

Board.—A term applied to executive officers acting collectively, *e. g.* the "Board of Directors" of a Limited Company.

Board of Trade.—A Government department (established in 1656) entrusted with the supervision of all matters relating to trade, navigation, and railways. The Board, as a Board, exists but never meets, all business being transacted by the President (who is ordinarily a Cabinet Minister), or through the Secretaries (who are civil servants).

Bond.—In English law a document under seal, the giver of which "binds" himself to pay a specified sum of money on special conditions, or at a given date, either to a prescribed person or to bearer. Most foreign governments, many British, foreign, and colonial corporations, and railway companies, issue "Bonds" to secure advances made to them, or loans publicly issued by them. In the U.S., railway loans which would in England be covered by "debentures" are covered by "Bonds to bearer," issued usually for $1,000 each.

These Bonds are largely held by insurance companies and private investors in this country, and are frequently secured by a charge upon the railway. The term "**Gold Bond**" is commonly applied to such Bonds as are payable in gold, and not in paper money or silver. In the case of dutiable goods imported into this country and warehoused, the importers frequently give to the Government a Bond or undertaking to pay the duty when the goods are removed from the warehouse specified. Such a warehouse, though it may be privately owned, comes within the supervision of the customs authorities, and is termed a "**Bonded Warehouse**," and the goods stored within it are termed "**Goods in Bond**."

Bonus.—An additional and occasional dividend arising out of unusual profits paid to the shareholders of a public company. A special present or additional remuneration given to an employee, usually in the form of a percentage on results. A share of the profits earned by a life insurance company allocated to such of its life policy holders as hold policies entitling them to share in the profits so realized.

Book Debts.—The amounts outstanding at a given date, and owing to the trader, in whose books they appear, by the persons with whom he has traded.

Bottomry—Bottomry Bond.—A special form of charge given by the owner or captain of a vessel upon the vessel itself in return for money lent. "Bottomry" is a corruption of the word "bottom," or keel of the ship, which part of the vessel is taken to imply the whole. In case of money borrowed on Bottomry the principal is not repayable if the ship be lost, but is repayable with any agreed interest upon the safe termination of the voyage. Bottomry Bonds and Respondentia Bonds (*i. e.* bonds secured on the *cargo* instead of the *hull* of a ship) have, through the extension of telegraphic facilities, fallen into disuse.

Brokers.—See "Jobbers."

Bullion.—Gold and silver in practically any form when of the standard fineness accepted by the mints of the civilized world. Gold will be minted into coin free of charge by the British Mint, but the privilege is rarely taken advantage of, although the Mint price of standard gold is £3 17*s.* 10½*d.* per ounce as compared with the Bank of England rate of £3 17*s.* 9*d.* The uncertainty of the time the coinage will occupy tends to induce holders of Bullion to dispose of it to the Bank of England at the lower rate, rather than take it to the Mint to be coined.

Cash Credit.—An undertaking whereby a bank permits a customer to overdraw his current account up to a specified sum. Cash credits are not commonly used in London, loans of round sums for specified periods taking their place. In granting a Cash Credit the bank usually requires from its customer some kind of security to cover, wholly or in part, the overdraft granted; the security may take the form of a deposit of bonds, title deeds or other realizable property, or the banker may accept the customer's personal bond with sureties, the latter guaranteeing to the bank full payment of its claims under the Cash Credit.

Certificate.—A written declaration testifying to the truth of some particular matter or fact. **Share Certificate.**—A Certificate under the seal of a company stating the ownership of shares in the company.

Chambers of Commerce.—Associations of merchants formed for the purpose of promoting commerce generally.

Charter Party.—A lease of a ship, or a part of a ship, for the conveyance of goods for a definite time, or for a specified voyage or voyages.

Chattels.—A legal term for "goods."

Choses in Action.—A legal expression denoting certain forms of incorporeal property, *e.g.* debts and shares in joint stock companies.

Circular Note.—A document issued by a banker to a customer going abroad. Circular Notes are usually issued for round sums, *e.g.* £10, and can be cashed by the party holding them at any of the foreign correspondents of the issuing bank, as if they were bank notes.

Circulating Assets.—Another term for "floating" assets, *i.e.* the assets held by a concern for the purpose of being converted into money, as opposed to those which are held for permanent use ("fixed" assets).

Clearing, Clearing House.—The word "Clearing" is applied to the process whereby, as among a coterie of persons having a multitude of claims the one against the other, the claims due between the members as a whole are offset one against another, and only the differences or "balances" found to be due between the various parties are paid or received. Such a process results in economy of currency as well as economy of time and labour. **Bankers' Clearing Houses** (for the adjustment of the totals of the cheques held by one bank on another) exist in London, and several large provincial towns. The London Clearing House is the most important of these institutions, and consists of three divisions, viz. the "Town" clearing (for cheques drawn upon certain great city banks), the "Metropolitan" clearing, for cheques payable in the metropolis, outside the limits of the "Town" clearing, and the "Country" clearing, for cheques drawn on the provinces. Every bank treats itself as the debtor of the Clearing House for all its own cheques presented for payment through the Clearing House, and as the creditor of the Clearing House for all cheques on other Clearing bankers held by it, and either pays to, or receives from, the Clearing House the difference between the two in the form of a single cheque on the Bank of England which acts as Banker to the Clearing House and its members. **Railway Clearing Houses** exist for the adjustment of transactions which have involved the use of two or more companies' systems. A **Stock Exchange Clearing** exists on the London Stock Exchange to facilitate the prompt settlement of dealings in certain securities widely dealt in.

Codicil.—A supplement to a will. It requires execution by the maker of the will with all the formalities which are necessary in the case of a will.

Collateral Security.—Any security deposited to cover, collaterally, a debt due upon another agreement or security (the "principal" security); *e.g.* stocks or shares may be deposited as Collateral Security for loans obtained from a banker, or to cover an overdraft in a banking account.

Commercial Credit.—An undertaking whereby a bank doing a foreign business engages to accept on behalf of an importer documentary bills drawn upon it by the relative exporter for the cost of the shipment. The bank, in such a case, holds the documents of title to the goods as security, as against the importer upon whose behalf it has accepted the bills, for the amounts of the acceptances.

Commission (Com.).—Agents and brokers are usually remunerated by means of a percentage (called a commission) upon the funds passing through their hands, *e. g.* ⅛th per cent. commission is usually charged by a stockbroker for purchasing Consols for a client.

Committee.—A body of persons appointed by a larger body of persons to transact some particular business in which all the persons are interested.

Company.—An association of persons for trading or professional purposes. (See Chap. XVI on joint stock companies.)

Compensating Errors.—Errors in a set of books which do not prevent the agreement of the trial balance—one error, or set of errors, in one direction being equalized and offset by other errors in a contrary direction. *E. g.* if the debit side of the Cash Book be added £10 in excess of the correct amount, and the Sales Book be added incorrectly likewise £10 in excess of the true amount, these two errors offset one another, and the trial balance "agrees" notwithstanding their existence.

Composition.—An arrangement between a debtor and his creditors whereby the latter accept in full settlement of his debts lesser sums than are actually owing. (See Chap. XX, "Bankruptcy.")

Consideration.—Some benefit accruing to one party to a given contract or agreement, or some loss or detriment suffered by the other party; in other words, the price or subject-matter of a bargain. In the case of an agreement under hand (see "Agreement") Consideration is necessary, otherwise the agreement is void, and sentiment, *e. g.* gratitude, is not legally a valuable Consideration capable of supporting a contract under hand based upon it. In the case of a Deed (*i. e.* an agreement "under seal") no Consideration is necessary.

Consols.—An abbreviation of the word "consolidated." The various issues of the debts of the Government have, from time to time, been merged into one mass, and the "**Consolidated Stock**" (as the result of the merger is termed) forms, at the present day, the bulk of the indebtedness of the British Government. The name "Consols" is applied in common parlance to the U.K. 2½ per cent. Consolidated Stock. The word "consolidated" often appears as forming a part of the names of stocks, and usually indicates that some merger has been effected in the past. *E. g.* London County Consolidated 3 per cent. Stock, North-Eastern Railway Consolidated Stock (the name "North-Eastern Consols" is frequently applied to the latter).

Consul.—A commercial representative of a nation appointed by the Government and stationed in the territory of another nation chiefly for the purpose of protecting the commercial interests of the country that he represents.

Contingent Liability.—A liability which will only come into definite existence upon the happening of a specified event, *e. g.* the liability of an indorser on a bill of exchange, which only commences upon the dishonour of the bill by the acceptor. Contingent Liabilities are most suitably stated in a balance sheet in the form of a memorandum, or footnote.

Contract.—An agreement enforceable at Law. (See "Agreement.")

Contract Note indicates commercially a memorandum of a sale effected for a principal by a broker, *e. g.* a stockbroker.

Coupon.—A detachable warrant for each payment of interest falling due upon a bond or debenture to bearer. Coupons are

attached to such bonds in sheets, much in the form of a sheet of postage stamps, a dated coupon being given for each payment falling due. As their due dates arrive coupons are cut off from the sheet, and are presented to the appropriate bank or office for encashment. Many sheets of coupons only extend for a given number of years, a larger detachable coupon called a "**Talon**" being attached as a voucher for a fresh supply of coupons when those attached have all expired. Coupons may be paid into the bank of the investor for collection. The receiving bankers collect and credit their customers with the amounts due (less tax) in the ordinary course.

Credit Note is a statement (frequently in red ink) sent to a person from whom "returns" have been received, or to whom an "allowance" has been made. The Credit Note sets out brief particulars of the transaction, and the amount at which it is being passed to the credit of the recipient of the note.

Currency is the medium of exchange employed for business purposes. Gold and silver have now been universally adopted as the circulating medium. The greatly increased volume of modern trading operations has had the effect of creating a paper currency in the form of cheques, bills, etc. In Great Britain the gold coinage is intrinsically worth its face value. The silver and bronze coins in circulation are "token" money, and are not intrinsically worth their face value.

d/d = days after date.

d/s = days after sight.

Debenture.—See Chap. XVI.

Debit Note.—A memorandum of indebtedness sent by a creditor to his debtor.

Deed.—An instrument in writing on parchment or paper, signed, sealed, and delivered by the maker of it. It is the most formal type of instrument known to English law, and needs no consideration to make it valid.

Deed of Arrangement.—See under "Arrangement, Deed of."

Demurrage.—Allowances by shippers or railway companies in case of the over-detention of goods entrusted to them for conveyance. The charge is usually upon a daily basis. Legal holidays and Sundays are not included in the demurrage charge.

Depreciation.—See "Amortization."

Dis. = Discount.

Distress.—Distress is the power to enforce the payment of a debt; such power is granted by the Common Law of England and is effected by the seizure of goods. The most common event in which the power of Distress is resorted to is the collection, by this means, of arrears of rent by a landlord from his tenant.

Dividend.—Etymologically "something to be divided"; in commercial practice the term indicates the sum or sums distributable among the share or stockholders of a public company. **Ex Dividend** and **Cum Dividend** are terms employed on the Stock Exchange to convey, in the former case, that the quoted price of the security in question does not include the next dividend, and in the latter case that such price does include such dividend.

Dividend Warrant.—A species of cheque issued by or for a dividend paying company, whereby its members obtain their dividends.

Dock Warrant.—A document issued by the authorities of a dock certifying that certain goods, specified therein, are in the custody

of the dock for and on behalf of the party in whose name the Warrant is drawn. Dock Warrants are, as a rule, transferable by endorsement, and need a *3d.* stamp. When such goods are withdrawn from the dock a **Delivery Order** is signed by the proprietor of the goods instructing the dock authorities to deliver to the bearer of the order the goods, or a portion of them, specified in the Dock Warrant. A Dock Warrant is thus a document of title.

Dormant Partner.—A partner in a firm whose name does not appear in the title or style of the firm, and who takes no active part in the conduct of its business, but who possesses capital in the concern, takes a share of the profits, and bears all the liabilities incidental to the position of a partner.

E. & O. E. is the contraction of the words "Errors and Omissions Excepted," which is still frequently to be found on invoices, etc. The practice of appending these letters is a useless one, and of no legal value whatever.

Endorsement, Endorsee, Endorsor.—See Chap. XII.

Endowment Policy.—A policy of assurance granted upon a person's life, the amount secured by which is payable to the assured person upon his reaching a certain specified age; or to his representatives at his death should the assured die before attaining the specified age. Premiums upon such policies are payable in some cases for the term of the policy, and in others for a limited number of years only. The policies may be entitled to a share in the profits or be "non-profit sharing" according to the premium paid.

Entry.—A record of a transaction made in its appropriate place in the appropriate book. The first Entry made in relation to any given transaction in a Book of Account, is termed the "*original*" Entry; subsequent Entries, arising from the "original" Entry, in other Books of Account are termed "*posted*" Entries, and the act of making them is referred to as "*posting*" the original Entries.

Entry, Port of, is a port at which exported goods may be unloaded, *e. g.* Boston is a Port of Entry for the U.S. Where protective tariffs are in force all imported goods must be landed at certain ports where revenue officers are stationed, and where the machinery necessary for assessing the amount of the tariff exists.

Estate.—A quantity of property. In bankruptcy, and with reference to the property of a deceased person, the word "Estate" is used to "signify the aggregate of the property in question."

Estate Duty.—A Duty payable to the Government upon the death of any person leaving property to the value of over £100. It is payable upon the aggregate of the estate at a rate per cent. calculated according to a scale varying with the total amount of the deceased's estate.

Ex. = Exchange. Also "out of," e. g. *ex* s.s. *Lucania.*

Exchequer Bills.—Bills issued by the Treasury to raise money for temporary purposes. Exchequer Bills form part of the floating or unfunded debt of the nation. Their price fluctuates with the national credit.

Exchequer Bonds.—Bonds issued by the Treasury for a definite period, to raise money for the same purpose as that for which Exchequer Bills are issued.

Excise Duties.—Duties placed upon specified articles (chiefly alcoholic liquors) produced and consumed at home.

Execution.—The seizure of goods owned by a person against whom a judgment has been given in a civil court, for the purpose

of satisfying the amount of the judgment by the proceeds of their sale.

Executor.—A person appointed by a testator in his will to carry out the instructions contained in the will. (See "Administrator.")

Factor.—A mercantile agent entrusted with the custody and control of goods belonging to his principal.

Firm.—A partnership. (See Chap. XV.)

Fixed Assets, or Fixed Capital.—Properties acquired or constructed with the expectation of earning profits by their use. (See Chap. XX.)

Fixed Charges.—Expenditure recurring constantly in periodical accounts. *E. g.* Rent, Rates, Taxes, and Interest on Mortgages.

Floating Assets, or Floating Capital.—The assets of a trader which are continually being transformed into cash. Cash itself is a Floating Asset. (See Chap. XX.)

Floating Charge.—A charge given by a company upon its property whereunder the company retains possession of the property charged, and may deal with it in the ordinary course of business until the company makes some default (*e. g.* fails to pay the interest upon the debentures conferring the Floating Charge), whereupon the charge "crystallizes," and attaches to the property in whatever form it may then be. Upon the "crystallization" of the charge the company may no longer deal with the property.

F. O. B.—Free on board. Goods bought to be placed on board a ship "F. O. B." are not at the risk of the purchaser until actually on board the ship. "F. O. R." = free on rail.

Folio.—A sheet of paper folded so as to make two leaves; in book-keeping the two pages, bearing the same "page number," presented to view when the book is opened. Ledgers and Cash Books, in which the ruling extends across the two pages open to view, thus usually consist of a succession of "Folios"; a Journal ruled according to the form given on page 73 does not usually extend over the two pages open to view, but is repeated on each of them; such a book consists of "pages," and each "page" is numbered separately.

Fraudulent Preference is legally defined as: "Every conveyance or transfer of property, or charge made thereon, every payment made or obligation incurred, and every judicial proceeding taken or suffered, by any person unable to pay his debts as they become due, from his own money in favour of any creditor or any person in trust for any creditor *with a view* of giving such creditor a preference over the other creditors, shall, if the person making, taking, paying, or suffering the same is adjudged a bankrupt on a bankruptcy petition presented within three months after the date of the making, taking, paying, or suffering the same, be deemed fraudulent and void as against the trustee in the bankruptcy." The most important factor in deciding whether any given transaction was fraudulent is the real *intention* of the bankrupt.

Freight.—The sum paid for chartering a ship or part of a ship, or for transmission of goods in a general ship. Freight may be payable either in advance, on departure of the vessel, upon arrival, or at other times as stated in the bills of lading.

Garnishee Order.—The method of execution by which a person who, owing a debt to a person against whom a judgment has been pronounced, is ordered by the Court on the application of the party in whose favour the judgment has been given not to pay such debt

to the person to whom it is due, but to pay it to the judgment creditor.

Gazette.—The *London Gazette* is the Government publication containing all the official notices of the Crown or Government. All the public notices necessary under Bankruptcy or Liquidation proceedings are advertised in the *Gazette.* Partnership notices should also be advertised in the *London Gazette.* In Scotland and Ireland similar notices appear in the *Edinburgh Gazette* and the *Dublin Gazette* respectively (published Tuesdays and Fridays).

General Average.—The loss sustained from a sacrifice purposely made in order to preserve a ship and its cargo (*e. g.* jettisoning a cargo). The person who has sustained the loss is entitled to recover a rateable contribution from all owners of cargo shipped in the vessel, and from all interested parties. the loss having been incurred for the benefit of all. (See also "Averages.")

Gilt-edged Securities.—Securities which are easily realizable and in which the due payment of interest and principal, as and when due, may be taken to be as safe as is humanly possible (*e. g.* Consols).

Guarantee.—A promise by one person to answer for the debt, default, or liability of another person. A Guarantee must be in writing (Statute of Frauds), and must, unless under seal, be given for valuable consideration, although the latter need not be stated in the writing itself.

Guaranteed Stocks.—Stocks, the interest upon which is guaranteed by some undertaking, Government or body other than the undertaking by which it was originally issued and which is primarily responsible. *E. g.* the 3% bonds of the Grand Trunk Pacific Railway Company are "guaranteed" as to principal and interest by the Canadian Government. Certain British railway companies have issued a particular kind of preference stock, which they somewhat erroneously designate "Guaranteed" Stock. Such "Guaranteed" Stocks are not guaranteed by any outside body in the generality of cases, but are simply cumulative preference stocks, ranking before the non-cumulative preference stocks and immediately after the debentures.

Guard Book.—A book or cover wherein are preserved invoices, receipts, or vouchers. The Book usually contains a number of blank leaves to which the documents to be filed therein are attached by means of gum or paste.

Hire-Purchase Agreements.—Contracts whereby, upon the payment of a deposit, or a first instalment followed by the payment of a series of subsequent instalments of stated amount, the ownership of certain goods passes from the seller of them to the payer of the instalments. The goods are delivered by the seller to the hire-purchaser upon payment of the *first* instalment by the latter, and he thereby obtains the opportunity of using them. The legal ownership of the goods, however, remains vested in the seller until the receipt by him of the *last* instalment, the goods being, until that time, "lent," in a legal sense, to the hire-purchaser. If the hire-purchaser fails to meet any particular instalment, the seller (or lender) can resume possession of them. In the books of a manufacturer or seller of goods upon the "hire-purchase" system, the goods disposed of in this manner should, for the period previous to the receipt of the last instalment due upon them, be treated as "stock out on hire"—a separate Memorandum Ledger being kept

for the accounts of the various hirers, as also a separate "Hire-Purchase Day Book." The *total of the instalments due from a hirer* should, at the outset, be debited in his account in this Memorandum Ledger, but the entry in the Sales Day Book for this department of the business will be made upon the signature of the agreement at the *cost price* of the goods. The valuation of the amounts due from the various debtors under Hire-Purchase Agreements will be made at the end of any trading period as if they were stock in hand in the department concerned, and the amount at which any particular batch of goods lent out under an agreement of this nature will be arrived at by deducting from the various personal accounts the unpaid proportion of the cost. The total of the issues of stock under Hire-Purchase Agreements for the trading period (as ascertained by the Sales Day Book for this department of the business) will be credited to the Trading Account, and debited to the "Stock out on Hire-Purchase Account," in the General Ledger, to which account will be credited all receipts from hirers throughout the period, together with the value of the stock out on hire at the end of the period, calculated upon the basis given in the preceding paragraph—the latter amount being brought down as a balance of stock on hand. The "Stock out on Hire-Purchase" will then show a difference, representing the Profit or Loss upon hire-purchase trading generally; this difference must, in due course, be transferred to the Profit and Loss Account.

A specimen of a "Stock out on Hire-Purchase" Ledger is appended.

STOCK OUT ON HIRE-PURCHASE ACCOUNT

Dr. Cr.

1908.			£	s.	d.	1908.			£	s.	d.
Jan. 1	To Value of Stock out on Hire-Purchase Agreements at this date........		962	10	9	Dec. 31	By Receipts from Hire-Purchasers during the year.........		1,010	12	9
Dec. 31	,, Cost of Stock sent out under Hire-Purchase Agreements during the year (as per Hire-Purchase Sales Day Book)......		3,240	10	0	,, 31	,, Value of Stock in hands of Hire-Purchasers at the end of the year (being the amount of the instalments not yet paid, after deducting the proportion of profit included therein)................		3,625	3	4
,, 31	,, Transfer to Profit and Loss Account, being the profit upon Hire-Purchase business for the year..............		432	15	4						
		£	4,635	16	1			£	4,635	16	1
1909. Jan. 1	To Value of the Stock out on Hire-Purchase Agreements at this date........		3,625	3	4						

In cases where the articles acquired under a Hire-Purchase Agreement amount to a considerable sum, for example, Railway

Wagons, it is necessary to ascertain how much of each instalment represents interest, and how much payment for the intrinsic value of the assets purchased. This course is necessary, as it will be obvious that the instalments comprise both revenue and capital items. The question of depreciation will also need careful adjustment.

Holding out.—A legal expression indicating the representation by a person that he is a partner in a particular firm. A person who "holds himself out" as being a partner in a specified firm is liable as if he were a partner to any person giving credit to the firm in question upon the strength of such representation.

Hypothecate.—To pledge or mortgage. Assets are said to be "hypothecated" when a charge upon them is given to a creditor by way of security.

Income.—The amount of money coming regularly to a person either from property or in payment for services rendered.

Income and Expenditure Account.—Another name for a Profit and Loss Account; the term is frequently applied to the Profit and Loss Accounts of non-trading institutions and charities.

Incorporation.—The creation of a legal body. The life of an incorporated body is deemed to be perpetual, except in so far as it may be limited by the instrument of incorporation.

Increase of Capital.—A company may, subject to the regulations contained in its articles of association, resolve that the limit of its authorized capital shall be increased to any desired sum. Government duty is payable upon the increase just as in the case of, and at the same rate as, the original capital. If the articles of association contain no powers authorizing an Increase of Capital, a "special" resolution of the company is necessary to alter the articles in the desired direction.

Indent.—A term somewhat loosely applied to orders from agents or correspondents abroad.

Indenture.—A deed; formerly a deed with serrated edges.

Infant.—Legally, a person under the age of twenty-one years.

Inscribed Stocks.—Stocks, the holders and holdings of which are *inscribed* (*i.e.* recorded) in the books of a specified registrar, no separate certificate of ownership being issued to the proprietor. The British Government Debt and many municipal corporation and colonial borrowings exist in the form of inscribed stock. A purchaser of inscribed stock receives a memorandum from the seller, called a "Stock receipt," recording the receipt by him of the purchase money; the receipt, however, is of no value except as a memorandum, and need not be produced when the purchaser sells his holding. Transfers of such stocks from a seller to a purchaser are made in person, or by an attorney, at the office of the registrar, and not otherwise. A large number of stocks, including the British Government Debt, are inscribed at the Bank of England. Stocks which are thus inscribed are deemed to be less liable to fraudulent conversion than where the ordinary methods of transfer obtain.

Insolvency.—Inability to pay one's debts. (See Chap. XX, "Bankruptcy.")

Interest.—Interest is the compensation or "rent" paid by a borrower for a loan of money. It may be regarded as consisting of two portions, one the rent paid for the use of the loan, the other as a premium (in the nature of an insurance premium) for the risk of losing it. Money does not produce Interest of

itself, but only when lent; the Interest on capital credited to the partners in a business out of the profits of that business is not Interest in the true sense of the word; it is only termed Interest upon the analogy of a loan and for financial reasons.

Interest on Capital during construction.—Although a company may, and indeed must, pay all interest becoming due to its various loan or debenture creditors notwithstanding the fact that its works may still be in course of construction, and as yet earning no profits, it may not ordinarily pay any interest or dividends to shareholders except out of profits. With the special sanction of the Board of Trade, and if provided for by its own constitution, a company may pay interest to its shareholders during construction of its works or equipment, but the permission to do so is commonly coupled with various restrictions both as regard the rate of interest and the period of its payment. (*Companies* (*Consolidation*) *Act*, 1908, *sec.* 91.)

Interim Dividends.—Dividends declared at some intermediate date during a financial period, and provided either out of current profits, or out of the profits brought forward from the preceding period. In a joint stock company the power of declaring dividends rests with the company in general meeting, but the articles of association of the majority of companies authorize the directors of the company to declare "interim dividends."

Inventory.—A list or catalogue of articles, *e. g.* of fixtures and fittings.

Investment.—Property acquired by a capitalist for the sake of the income derived from it, and as a repository for funds owned by the purchaser. The income yielded comes to the capitalist in the form of interest, or as a share of profits earned by the employment of his money, and he is usually not an active participator either in its supervision or its production. Land, buildings, leases, loans upon mortgage, and ground rents are types of Investments relating to real property (*i. e.* to land); they were, prior to the institution of national debts and joint stock companies, the principal form of Investment; in this country, however, their vogue, as Investments, is not so great as it was, owing to the industrial revolution and its accompanying migration of the bulk of the population into the large towns. What are known as "Stock Exchange" Investments form, now-a-days, the type of Investment to which the word is most commonly applied. The securities dealt in on the Stock Exchange are the obligations or indebtedness in various forms of almost every civilized country, whether as national, municipal, provincial, or State debts, and the borrowings and the transferable shares of the innumerable British, foreign and colonial joint stock companies at present existing. As regards form, Stock Exchange Investments are of three types, viz. (*a*) **To Bearer**, transfer being effected by means of the simple delivery of the document. (*b*) **Registered**, the security being registered in the name of the holder for the time being, and a certificate of ownership being issued to him. Transfers are effected by written documents. (*c*) **Inscribed.** The characteristics of this class of security are similar to those of Registered Securities, except that the holder receives no certificate of ownership. (See "Inscribed Stocks.") It is impossible within the compass of these notes to discuss the question of Investments exhaustively; the following brief considerations may, however, be submitted for consideration. 1. That Investments cannot be obtained producing a high rate of interest without an

accompanying element of risk, the higher the yield the greater, as a rule, the risk. 2. That at the present time an investor who purchases stocks yielding over 4 per cent. per annum must, as a general rule, be prepared to face some degree of insecurity as regards the principal invested. 3. That, as between any two stated securities, one of which yields a higher return than the other, the increased return obtainable from the one security is usually, as compared with the other security, disproportionate to the additional risk involved. For the protection of trustees holding or investing money on behalf of other persons, the **Trustee Act, 1893**, states that trustees may, unless specially forbidden by the Trust Deed, invest money in the following securities, and if so doing they are not to be held responsible for any loss that may be sustained. They may also from time to time vary any such investments.

TRUSTEE ACT, 1893 (SECTION I).

(*a*) Government Securities, Public Funds, or Parliamentary Stocks of the U.K., (*b*) On real or heritable securities in the U.K., (*d*) Indian Government Securities, and (*e*) Securities the interest of which is guaranteed by Parliament.

(*c*) Bank of England and Bank of Ireland Stocks.

(*f*) Metropolitan Board of Works Stock, London County Council Stock, and Metropolitan Police District Debenture Stock.

(*g*) Debenture, rent charge, guaranteed or preference stocks of any railway in the United Kingdom, if the dividend for the last ten years has been not less than 3 per cent. per annum on the ordinary stock.

(*h*) Stock of any railway or canal company, leased for not less than 200 years at a fixed rent to any railway company under (*g*).

(*i*) Debenture stock of any Indian railway, the interest on which is paid or guaranteed, or (*k*) other stock on which a fixed or minimum dividend in sterling is guaranteed by the Indian Government, or upon the capital of which the interest is so guaranteed

(*j*) "B" Annuities of the Eastern Bengal, East Indian, and Scinde, Punjaub and Delhi railways, and any like annuities, charged on the revenue of India, also in "D" Deferred Annuities and "C" Annuities of the East Indian Railway.

(*l*) Debenture, guaranteed, or preference stock of any incorporated water company in Great Britain which has for the last ten years paid a dividend of not less than 5 per cent. on its ordinary stock.

(*m*) Municipal stocks of towns of over 50,000 inhabitants or County Council stocks issued under Act of Parliament or provisional order.

(*n*) Water trust stocks of towns or compulsory districts of over 50,000 inhabitants where assessment for each of the last ten years has not exceeded 80 per cent. of the amount authorized.

(*o*) Stocks authorized for investment of funds under the control of High Courts of Justice.

Section 2 sub-section (1) permits the purchase at a premium of redeemable stocks, but sub-section (2) prohibits investment in those

stocks otherwise available under sub-sections (*g*), (*i*), (*k*), (*l*) and (*m*) of section 1 which are liable to redemption at par or other fixed rate within 15 years of the date of purchase, or which stand at a premium exceeding 15 per cent. above the redemption value.

COLONIAL STOCK ACT, 1900.

Section 2 of this Act permits a trustee empowered under the Trustee Act, 1893, or the Trusts (Scotland) Amendment Act, 1884, to invest in any colonial stock registered in the United Kingdom in accordance with the provisions of the Colonial Stock Acts, 1877 and 1892, as amended by this Act, provided such stocks have been notified in the London and Edinburgh *Gazettes* as having been approved by the Treasury, subject to the restrictions contained in section 2 sub-section (2) of the Trustee Act, 1893.

For any further information about Investments the author would direct the attention of the student to the first part of *A Plain Guide to Investment and Finance*, by T. E. Young, B.A., where the whole subject is treated in an able and convincing manner.

Invoice.—A written statement rendered by a person parting with goods by sale or consignment to another person, giving the quantities, prices, and nature of the goods in question. A *pro forma* invoice is for reference only, and is employed (1) when goods are sent out "on approbation," (2) for use in the case of consignments abroad, (3) when dealing with the Customs authorities.

Invoice Book.—A record of invoices. The name is applied somewhat loosely to all of the three following kinds of books: 1. The Purchases Journal. 2. The guard book containing the original invoices received in respect of purchases of goods. 3. The press copies of "sales" invoices.

I O U.—The recognized contraction for "I owe you." A written acknowledgment of a debt, containing no specified date for repayment, usually given as a voucher for, or evidence of, a temporary loan for a small amount. The following is the common form—

To Mr. O. Harris,
I O U
Ten pounds.
Robert James.

August 13, 1909.

An I O U as above requires no stamp. The name of the creditor need not appear on the document. Any specification of a due date added to the above form would convert it into a promissory note, and would render it inadmissible as evidence unless stamped in the ordinary way. An I O U is not a negotiable instrument.

Jettison.—The act of throwing overboard cargo or gear for the purpose of lightening the ship when in peril. (See "General Average.")

Jobbers, stock jobbers, dealers or merchants in stocks and shares on their own account. **Brokers** are agents appointed by their clients to deal in stocks for them; a broker, who is a member of the London Stock Exchange, upon receiving an order from a client to purchase stock buys it from a Jobber and not from another broker.

Joint and Several Liability.—If two persons are **jointly** liable for any particular debt or obligation, a plaintiff obtaining judgment against any of them for the debt is precluded from subsequent action against those not sued by him at the time. In the case of a

several liability all persons liable may be sued individually and in succession. A liability which is **joint and several** permits of action being taken against all or any of the joint debtors together or one after another, and a judgment obtained against one or more of them does not bar subsequent proceedings against the remainder. The liability of partners is a "joint" one, but they are severally liable for certain matters specified in the Partnership Act. *E. g.* the misapplication of customers' or clients' funds for the firm's benefit.

Judgment.—The decision of a competent court of law.

Latin Monetary Union.—A convention formed in 1865 between Belgium, France, Italy and Switzerland in order to maintain the "double standard," under which gold and silver rank equally in commercial transactions. Greece subsequently joined the union.

Lease.—A grant of property for life, or for a term of years, or from year to year from the owner of property (the **lessor**) to another person (the **lessee**). The consideration is sometimes a yearly or other periodical rent, and sometimes a lump sum paid at the commencement; if the latter, the payment (the **premium**, as it is called) must be written off in the lessee's books over the period of time for which the lease has been granted.

Legacy.—A gift of personal estate by will. Legacies are of three kinds: (1) Specific (of a definite article), (2) General (a sum of money payable out of the general estate), and (3) Demonstrative (payable primarily out of a specific fund, or, on the latter's failure, out of the general estate). Government duty is payable upon all legacies. The duty is calculated according to a scale of duties imposed according to the nearness of the relationship between the testator and the beneficiary. If the estate is insufficient to pay in full the legacies bequeathed by the will, the legacies are subject to abatement, *i. e.* they rank *pro rata* for a proportionately smaller sum.

Legal Tender.—The duly authorized medium of exchange. Gold and silver are now practically universally adopted as the medium of exchange. In Great Britain Gold is "legal tender" up to any amount, Silver up to 40*s.*, and Bronze up to 1*s.** Bank of England notes are legal tender for all sums for £5 and over, except at and by the Bank of England and its Branches. Bank of England notes are not legal tender in Scotland and Ireland. The money must be tendered unconditionally, and must be actually produced when the offer of payment is made. The person to whom legal tender is offered cannot be compelled to give change.

Letter of Credit = L/C—is a request from a banker to his agent or correspondent abroad authorizing him to honour the drafts of the party who is named in the letter of credit, and undertaking to duly meet such drafts when presented.

Liability.—An obligation. The debts of a company or trader are referred to as the "Liabilities" of the business or person. (See "Contingent Liability.")

Lien.—The right possessed by a person who has the possession of another person's goods or property to retain them if the owner is indebted to him; *e. g.* a solicitor has a "Lien" upon a client's documents for the amount of any costs that may be due to him. A **particular Lien** is one which attaches only to some specific article; whereas a **general Lien** covers general debts against which property is held by way of security.

* Farthings up to 6*d.*

Life Assurance.—A contract whereby, in consideration of a series of periodical payments termed *premiums*, made by, or on behalf of, a person (whose life is "**assured**") to another person termed the "**insurer.**" The latter undertakes to pay on the death of the "**assured**" a certain sum to the person entitled to it under the contract.

Limitation of Actions.—Under the various "**Statutes of Limitations**" persons entitled to enforce any claims against other persons by way of legal action must bring their actions within specified periods of time, otherwise they lose their rights. For contracts made verbally, or in writing under hand, and rights arising out of them, a period of six years from the time when the right of action first arose is allowed, during which a suit in regard to them may be commenced. In the case of instruments or contracts under seal, a period of twenty years is allowed from the time when the right of action first arose, and a period of twelve years is prescribed for certain sums payable out of or charged upon land.

Limited Company.—A company formed under the *Companies (Consolidation) Act*, 1908, the members of which enjoy limited liability, their liability being limited to (1) the amount unpaid on any shares taken by them ("companies limited by shares"); or (2) to the amount they have agreed to contribute in the event of the company being wound up ("company limited by guarantee"). (See Chap. XVI, "Joint Stock Companies.")

Liquid Assets.—Cash, and such assets as can be readily converted into cash.

Liquidator.—A person appointed to wind up or "liquidate" the affairs of a company by converting all its property into ready money, paying off all the creditors, and returning any surplus to the members of the company.

Lloyds.—An association of independent insurers originally located at Lloyd's Coffee House. The insurances effected were formerly almost entirely confined to insurances on ships and their cargoes. In modern times, however, the functions of "Lloyds" have broadened, and risks of all kinds are frequently undertaken. **Lloyds Register of British Shipping** is a complete and valuable register of ships and their classification. **A1** denotes first-class vessels; **90 A1** indicates vessels of lower class; and **80 A1** that of the lowest class registered.

Lloyds Bonds.—A railway company may not borrow in excess of the amount of the borrowing powers conferred upon it by Parliament; it may, however, issue to contractors for work done a form of bond or obligation which is very much the same thing as a debenture, the contractors being able to dispose of these bonds as if they were debentures. Bonds of this nature are termed "Lloyds Bonds," from the name of the counsel who invented them.

Managing Director.—A Director to whom special powers and duties in connection with the management of a company's business have been delegated by the board. The general management of the whole concern is frequently vested in the Managing Director.

Manifest.—A detailed schedule, containing the distinctive marks and numbers and the names of the consignors of all the goods comprising a ship's cargo. This document is prepared for delivery to the Custom House authorities at the port of destination.

Marine Insurance.—A contract whereby a person having property

exposed to the risks of transit by sea can secure himself against loss by paying a premium to an insurer, who will compensate him for any loss arising from the perils insured against, *e. g.* through shipwreck and the consequent loss of the cargo of which the insured's property forms a part. (See also "Averages.")

Memorandum of Association (of a company incorporated under the *Companies* (*Consolidation*) *Act*, 1908).—A document containing certain prescribed provisions, signed by the original members of a company at the date of its incorporation. It is registered with the Registrar of Joint Stock Companies, and forms the fundamental document upon the terms of which the company comes into existence. In the case of a company limited by shares the Memorandum must contain—1. The name of the Company, including the word "limited" as the last word thereof. 2. The part of the U.K. wherein the company's registered office is to be situated. 3. The objects for which the company is incorporated. 4. A statement that the liability of the members is limited. 5. A statement of the authorized capital with which the company is registered. Clauses 1, 2, 4 and 5 are, in practice, moderately brief, but Clause 3 (known as the "Objects" Clause) is commonly extremely lengthy and verbose. This is due to the fact that the company is legally restricted more or less to the objects set out in its Memorandum, and may not embark in matters not covered by it; hence the ingenuity of legal draftsmen usually includes in the objects clause not only power to carry on the business for which the company is originally formed, but general powers to carry on almost every imaginable class of business.

Mint par of Exchange.—A term used with reference to the comparison of the standard coins of two countries possessing different systems of coinage to express the relative weights (and the resultant relative values) of the precious metal contained in the two coins compared. The Mint par of the gold currency of France, as contrasted with the gold currency of Great Britain, is approximately 25·22½, *i. e.* a sovereign contains an amount of gold which would realize 25 francs 22 centimes in France, or, in other words, 25,225 francs in gold currency, freshly minted, would contain an amount of gold equal in value to that contained in a thousand newly-coined sovereigns. The Mint par of Exchange between two countries is the theoretical point about which the market value of drafts and cable transfers on either country ought to range, due allowance being made for any question of interest involved, and in practice this is, to a large extent, the case in normal circumstances.

Minute Book.—A book, required by the *Companies* (*Consolidation*) *Act*, 1908, to be kept by all companies within the purview of the Act. The purpose of the book is to record all resolutions and proceedings of general meetings of the company, and all proceedings of the directors or managers. The "**minutes**" (*i. e.* the record made in this book) of each meeting are commonly signed either by the chairman of that particular meeting, or by the chairman of the next succeeding meeting, and if so signed they form legal evidence of the proceedings they purport to record.

Moiety (legal).—A half.

Money.—A term originally confined to coined metal, but now applied generally to any currency used as the equivalent of coin in commercial transactions. The work formerly done by coined Money is now largely accomplished by means of various credit

instruments, such as cheques and bills. The functions of Money are: 1. To supply a medium for the exchange of merchandise or to recompense services rendered. 2. The common measure by which the differing values of goods are estimated. 3. To furnish a convenient method of expressing obligations, and a method of storing values. 4. To supply a convenient means of transmitting value from one place to another. Gold has now practically established its position as the predominant standard of Money. Even in those countries where two metals are employed to represent the standard of value—a system known as **Bimetallism**—gold is accorded the leading place. The commercial area within which loanable capital finds employment is termed the **Money Market.** The main business of the market consists of the discounting of bills and the granting of short loans (1 to 14 days). Money is said to be "dear" or "cheap" according as the supply of it is scarce or abundant, that is to say, when the amount of loanable capital available is plentiful Money is cheap and *vice versa.*

Mortgage.—A security for a debt created by means of a transfer to a lender of the ownership of property owned by a borrower. Such transfer secures to the lender the sum of money advanced, together with (in the majority of cases) the interest falling due thereon. As a general rule the borrower remains in possession of the property. Upon the full satisfaction of the total amount due under the loan the interest of the lender (the "**mortgagee**") in the property pledged to him comes to an end, and the full ownership reverts to the borrower who effected the pledge (the "**mortgagor**"). Re-transfer of the property pledged being an understood proviso upon repayment of the debt in all cases. If, however, the borrower fails to repay the loan and interest within a certain period after it falls due, the lender becomes the owner of the mortgaged property, and can sell it to reimburse himself for the loan made by him. "**First**" Mortgages of land and buildings are commonly reputed to be a safe form of investment in this country, and ordinarily yield from 3½ to 5 per cent. interest per annum, a rate which is appreciably higher than that obtainable on Government Stocks; a "**Second**" Mortgage is the subsequent Mortgage of property already subject to an existing (*i. e.* "first" or "prior") Mortgage. It will be obvious that a second Mortgage is not so desirable a form of investment as a first Mortgage, and the rate of interest payable by a borrower for a loan secured in this manner is always appreciably higher than that paid upon the first charge. Debentures commonly contain clauses "mortgaging," for the benefit of the debenture holders, certain property owned by the company which issues them: they are then known as "**Mortgage Debentures.**" A company incorporated under the *Companies* (*Consolidation*) *Act*, 1908, must, if it creates any Mortgages upon its property, or otherwise charges its assets, keep a record of all such charges in a "**Register of Mortgages,**" such Register being open for the inspection of members and creditors.

Negotiable Instrument is a document, usually embodying an acknowledgment of debt, capable of transfer by mere delivery. Such documents change hands unaffected by any defect of title on the part of the deliverer, if taken in exchange for value and in good faith. Cheques, bills of exchange, circular notes, bank notes, promissory notes, "bearer" scrip, and exchequer bills, furnish

examples of Negotiable Instruments. The words, "Not negotiable," are useless, from a legal point of view, except when employed in connection with the crossing of a cheque.

Net (Latin, nitidus = clean).—In commerce the term expresses the amount or quantity of money or merchandise after all deductions have been made.

Par.—From the Latin word meaning "equal." In commercial circles the word is employed to indicate the nominal or face value of a security. Stocks quoted above the nominal value are said to be **above par**, or conversely **below par**.

Pari Passu.—On an equal footing.

Patent (Patent Right).—An official document granting for a term of years the exclusive right to the proceeds of an invention. These rights are granted by the Crown to the inventor of a new manufacture or "new process." A patent right continues (subject to the payment of certain fees) for fourteen years from the date of the grant; there exists a power to grant to the patentee an extension of his patent for a limited number of years in excess of the original fourteen years, but this power is only exercised in exceptional cases. Where patent rights form part of the assets of a trader or an undertaking care must be taken to see that their original cost is written off over the period for which they exist.

Pawn (or **Pledge**).—A transfer of movable property made by one person (the **pledgor**) to another (the **pledgee**) in order to secure repayment of an advance made by the pledgee to the pledgor, or to secure the fulfilment or performance of some obligation to which the pledgor is subject. The pledgee has the right of selling the property pledged if the pledgor fails to fulfil his obligations at the appointed time.

Payment for honour *supra* protest.—If a bill has been dishonoured when presented for payment, and has subsequently been protested, any person may intervene and pay it for the honour of any party who may be liable upon the bill, or for the honour of the person for whose account it is drawn. Such a payment is styled one "for honour *supra* protest."

Per cent.—By the hundred.

Percentage.—A sum or number signifying a ratio to "one hundred." It is frequently convenient for purposes of comparison to reduce to a common basis the various items contained in a given financial or accounting statement, and the basis commonly taken is usually "one hundred." In the case of a Trading and Profit and Loss Account, it is customary, in reducing the accounts to a percentage form for the purposes of comparison, to take the amount of the sales or turnover as representing "one hundred," and to work out the relation to the sales of all the other items contained in the statement upon this basis. Every item thus becomes resolved into its proportionate expression "per hundred pounds of sales," and it is frequently found that a statement expressed in this way presents for purposes of comparison of cost a clearer view of the results attained than a Profit and Loss Account containing the actual figures. In some cases it may be preferable to take the cost of the goods as the standard of comparison. In colliery accounts the cost per ton of coal won is the basis usually taken.

Per Procuration (per pro) (*By procuration*).—The words *per pro* are commonly appended to the signature of a duly authorized agent when signing a document on behalf of his principal, the customary

form being: *per pro* * A. Brown † C. Davies ‡. The use of the words *per pro* indicates that the agent has only a limited authority to sign. The principal is not bound by the acts of his agent if the agent exceeds the scope of his authority.

Personal Property.—One of the two great divisions into which English law divides property, the other being that of "real property." **Real property** includes freehold houses and lands, and the law governing such property is, owing to legal conceptions dating back almost to feudal times, different in many respects from that governing the other class of property. **Personal property** includes money, goods, leases, furniture, and other property of a similar nature.

Plaintiff.—A person who takes legal action against another person (the **Defendant**).

P/N = Promissory Note.

Policy.—A document expressing the obligation of an insurer to bear or sustain the loss or the damage arising out of the risk undertaken by him, or to pay a certain fixed sum upon the happening of a specified event. Marine, Life, and Sinking Fund Policies may commonly be assigned, but Fire Insurance Policies are, as a general rule, non-assignable. The annual or other periodical payment due under the terms of a Policy of insurance is called the **premium.**

Poll.—An appeal to the whole of the members of a given body of persons in order to ascertain the preponderance of opinion among them upon any particular question. In the case of general meetings of joint stock companies the opinion of the meeting is usually taken by a show of hands; but persons who may be dissatisfied with the result of this method of voting may commonly demand that a "Poll" of all the members of the undertaking shall be taken. A demand for a Poll must be in writing, and due notice should be given to the shareholders of the date and place upon which the Poll will be held.

Post-dated Cheque.—A cheque drawn and signed upon a day antecedent to the date inserted in it. Post-dated Cheques are commonly given as acknowledgments for loans, between parties, although their execution amounts to a breach of the stamp laws.

Postponed Creditors (Deferred Creditors).—In bankruptcy the following creditors' claims are deferred or postponed until all other creditors' claims have been satisfied: 1. The lender of money to the bankrupt under a contract in writing to the effect that interest is to be paid on the loan at a rate of interest varying with the profits, or that a share of profits is payable to the lender in lieu of interest. (The object of the contract *in writing* is to afford proof that the lender, although thus sharing in profits, is not a partner.) 2. The seller of the goodwill of a business to the bankrupt in consideration of a share of profits. 3. Money entrusted by a wife to a husband for the purpose of any business carried on by him.

Preferential Creditors.—In bankruptcy, and also in the winding up of companies, the following creditors are entitled to payment of their claims in priority to all other creditors, viz. 1. Rates and taxes, subject to certain stipulations, for not exceeding one year. 2. Clerks' wages for not more than four months prior to receiving order (or winding up), up to £50. 3. Workmen's wages, similarly, for not more than two months, and not exceeding £25. 4. (In bankruptcy only) Money held by the bankrupt, if an officer of a Friendly Society, by virtue of his office. 5. (In bankruptcy only)

* Or "p.p." † The principal. ‡ The agent.

The claim preferred by or for an articled clerk to the bankrupt in regard to the unexpired portion of any premium paid by or for him to the bankrupt.

Premium.—See "Policy."

Presentment for Acceptance.—The presentment of a bill for acceptance to the party upon whom it is drawn. Where a bill is payable "after sight" presentment is necessary in order to fix the maturity of the instrument.

Press copy.—A copy of any document (written in copying ink), obtained upon a sheet of tissue paper by passing the document itself and the tissue paper through the copying press. Most mercantile documents of any importance, *e. g.* letters, invoices, etc., are press copied; cheques, bills, and documents drafted by lawyers are not commonly press copied.

Primage (or **Hat Money**) is a gratuity payable to the master of a ship in recognition of careful navigation, etc. The term and practice are now, however, largely out of use.

Private Company.—A limited liability company, formed under the Companies (Consolidation) Act, 1908, which: 1. Cannot consist of over 50 members. 2. Restricts the right to transfer its shares. 3. Is prohibited from making a public issue of its shares. Such a company may consist of two or more members. (See Chap. XVI, "Joint Stock Companies.")

Probate.—The official proof of a will. (See "Administration.")

Profit.—The sum obtained by the employment of capital in productive enterprise after (1) paying all expenses of trading and (2) making any necessary provision for replacing capital lost.

Profits prior to incorporation.—If a company, incorporated at a given date, purchases a business as a going concern as from a date prior to the date of its incorporation, the proportion of such profits made prior to the date of incorporation are not profits available for distribution as dividend to the shareholders. A company cannot make profits prior to the date at which it comes into being, and any such accrued profits therefore which have been bought by it should be written off the purchase price of the goodwill, or placed to a capital reserve account, or be otherwise set aside in such a manner that they do not subsequently become divided among the members of the company.

Promoter.—A person who forms a joint stock company and assists to launch it. **Promotion** is not a term of law but of business, and includes a number of operations such as framing the prospectus, procuring the underwriting of the shares, and so on. A Promoter stands in a fiduciary relationship to the company which he is engaged in promoting, and may not derive profit out of the promotion without disclosing it to independent representatives of the company itself, and to the public (if the latter are asked to subscribe capital). The question as to who are and who are not the Promoters of any given company depends mainly upon the facts of each case.

Prospectus.—The document issued by or on behalf of a company appealing to the public to subscribe for its shares or debentures. Various matters must legally be disclosed in a Prospectus in order that a prospective applicant may know the nature of the concern in which he is investing. (See Companies (Consolidation) Act, 1908, sec. 81.)

Proxy.—A person appointed to vote at a meeting on behalf of

another person who would have been entitled to vote if he had been present. The instrument appointing a Proxy must ordinarily be in writing. Voting by Proxy is only permissible if allowed by the regulations of the body of which a meeting is to be held.

Quarter Days are as follows: *England*—March 25 (Lady Day), June 24 (Midsummer), September 29 (Michaelmas), and December 25 (Christmas). *Scotland*—February 2 (Candlemas), May 15 (Whitsunday), August 1 (Lammas), and November 11 (Martinmas).

Quorum.—The minimum number of members of any given body required to be present at any stated meeting or proceedings in order that the acts done or to be done may be valid. The Quorum requisite for members' and directors' meetings of bodies or companies is usually prescribed by the regulations of the particular undertaking.

Rate of Exchange.—The price, in the money of one country, of the money of another country. In this country the currencies of other countries are quoted in one of two ways. 1. The price of a unit of the foreign currency (*e.g.* one U.S. dollar) is quoted in British currency (*e.g.* 49½ pence per U.S. dollar). 2. The number of units of foreign currency are quoted which will be given in exchange for one pound sterling, *e.g.* "25·22 francs" may be quoted as the equivalent of £1. The currency of Germany and the countries belonging to the Latin Union are quoted on the London money market at a rate which expresses the amount of foreign currency obtainable for £1, *e.g.* 20·40 German marks, 25·22 francs (French, Belgian, or Swiss), 25·40 Italian lire. The U.S. and Canadian currencies, on the other hand, are quoted in both the above ways, *e.g.* 49½*d.* per dollar, or 4·88 dollars per £1. Russian currency is quoted as so many pence per rouble (*e. g.* 24½*d.*) or so many roubles for £10 (*e.g.* 98·50). Dutch currency, and those of Scandinavia and Denmark, are quoted at so many Dutch gulden or Norwegian, Swedish, or Danish kroner to the £1.

Raw material.—The commodities obtained (frequently in bulk) in an unadapted condition, for use in the manufacture of "finished" articles.

Real "Estate" or "Property."—Lands, whether of freehold or copyhold tenure, including the buildings thereon. (See "Personal Property.")

Realized Profits.—Profits which have been converted into cash in hand, or otherwise reduced to a tangible form. *Example.*—If investments appreciate in value over and above their original cost the amount of such appreciation is an "unrealized" profit until the investments are sold, when it becomes a "realized" profit. It is usually unwise for a company to pay dividends out of unrealized profits; it is generally advisable to postpone the distribution of profits of this nature until such time as they have been realized.

Rebate.—An allowance; in banking an allowance of interest (or discount) made to the party liable upon a bill previously discounted with a banker, upon the payment of the bill before its maturity by the party liable upon it.

Receipt.—See "Voucher."

Receiver.—A person appointed by the Court in an action, or by mortgagees in various cases to take possession of property, either for its preservation, or to collect the revenue arising from it.

Reconciliation Statement.—See Chapter IV, "The Cash Book."

Reconstruction.—A financial term expressing the reorganization or Reconstruction of a joint stock company. A company frequently

desires to obtain fresh funds from its members, but, owing to the fact that the shares of the company are fully paid it is found to be impossible to impose an assessment upon its members directly. In such a case a Reconstruction usually ensues upon the following lines: 1. That the existing company shall sell its undertaking to a new company in exchange for a given number of *partly paid-up* shares in the new company, *e. g.* £1 *shares credited as* 17*s.* 6*d. paid.* 2. That such partly-paid-up shares in the new company shall be distributed by the old company *pro rata* among its members. Members accepting these new shares in exchange for their holdings in the old company naturally become liable to pay up the liability on them (*e. g.* the 2*s.* 6*d.* per share unpaid in the case of the £1 share credited as 17*s.* 6*d.* per share mentioned in the preceding paragraph). 3. Members who are unwilling to pay the newly-imposed liability can refuse to accept the shares, and can serve a notice of dissent upon the company, requiring, either that the scheme shall not proceed, or that their interest in the old company shall be redeemed. In practice it usually happens that the majority of companies which are unsuccessful prior to their reconstruction are equally unsuccessful afterwards; the additional capital afforded by a Reconstruction being usually inadequate. The right of "dissent" attaches indefeasibly to the holder of shares in a company which is about to be reconstructed, but its product, in the way of the price paid by the company to the dissentient for his interest is frequently insignificant; a farthing a share is not an uncommon price in many cases.

Record Book.—The minute book kept by a trustee in bankruptcy proceedings, or by the liquidator in a compulsory winding up of a limited company.

Referee in Case of Need.—The drawer of a bill of exchange and any indorser may insert thereon the name of a person who, if the bill be dishonoured, will protect or pay it for the honour and on behalf of the person inserting the referee's name. Such a person is termed a "Referee in Case of Need."

Registered Office (of a company).—Every company incorporated under the *Companies* (*Consolidation*) *Act*, 1908, is obliged to have a "registered office," the situation of which must be notified to the Registrar of Joint Stock Companies.

Remittance.—The sending of money; also applied to the sum of money which is sent or "remitted."

Reserve Liability.—A limited company may resolve that any portion of the uncalled liability on its shares shall only be capable of being called up in the event of the company being wound up. Such "Reserved Liability" then becomes incapable of being dealt with or mortgaged by the company during its life, and is preserved for the benefit of the creditors generally in the event of the company being subsequently wound up. Many leading banks have so resolved to "reserve" portions of their uncalled capital, the amount of which is usually proportionately large in comparison with the paid-up capital.

Rupee.—The standard silver coin of British India. The Rupee weighs 180 grains (165 gs. fine silver and 15 gs. of alloy). The present exchange value of the Rupee is 1*s.* 4*d.*, which is nearly double its intrinsic value. The contraction Rx. is used to denote 10 Rupees, a "**Lac**" of Rupees = 100,000, and a "**Crore**" of Rupees = 100 lacs. A Rupee consists of 16 annas, 64 pice, or 192 pie.

Salvage.—Compensation to those who have by their exertions saved a ship or cargo from maritime perils. The term is also used to denote the things so "salved" or "saved."

Sample.—A small quantity of goods or articles submitted by a seller to a possible or prospective purchaser in order that the latter may have knowledge of the nature of the goods or articles offered for sale.

Sans Recours.—A phrase which the indorser of a bill may append to his indorsement; if added, it suffices to discharge the bill (*i. e.* to make it negotiable), but if the bill is dishonoured the indorser "Sans Recours" cannot be sued upon it personally as is the case with an ordinary indorser.

Scrip.—A term used, often somewhat loosely, to denote certificates representing investments. In Great Britain nearly all securities are either inscribed or registered. In America and on the continent "bearer" bonds and shares are almost universal. (See Chap. XVI, "Joint Stock Companies.")

Seal.—A company incorporated under the *Companies* (*Consolidation*) *Act*, 1908, must possess a common Seal, and this is characteristic of almost all incorporated companies. The common Seal is the official signature of the company; it is entrusted to the directors, and when affixed to a document it is usually attested by the signatures of the directors (or a prescribed number of them) present when it was affixed. Two or three locks are usually affixed to the Seal of a company, the key of one of which is retained by the secretary of the company, and the others remain in the possession of those directors who are detailed for the purpose. A document sealed and delivered by an *individual* is in law termed a "deed"; it is the highest form of written document known to English law. A document to which a *company's* seal is affixed usually amounts in law to a deed, but not in every case.

Seal Register.—A book, frequently kept by companies, recording brief details of the documents to which the common seal of the company has been attached.

Securities.—A term used to denote investments or the documents representing them.

Set-off.—A counter claim.

Share Warrants to Bearer.—Share certificates issued by a company stating that *the bearer* of them is entitled to a stated number of shares in the company's capital. They pass from hand to hand without registration, or the need of any transfer deed, and are to this extent convenient; on the other hand, they cannot be replaced if lost, and they require to be stamped with stamp duty on three times the nominal value of the stock. The opportunities they offer for misuse for fraudulent purposes are also considerably greater than is the case with registered certificates.

Ship.—The ownership of a British Ship is by custom divided into 64 equal "shares," any number of which may be held by a particular owner.

Simple Contract.—An agreement made by word of mouth or embodied in a writing which is not under seal (*i. e.* not a "deed"). A contract or agreement of this description requires consideration to support it, but, if consideration be present, it is legally valid. Certain specified forms of Simple Contract require to be embodied in writing, or to be signed by one or more of the parties to them, but, apart from these special requirements, "Simple" Contracts may be

either verbal or written. The phrase "**parol contracts**" is often used as a substitute for "Simple Contracts," and has the same significance; it does not refer (as the word "parol" would suggest) only to verbal contracts, but also to those which are written, but are not embodied in the shape of a deed.

Single Ship Company.—A joint stock company incorporated to acquire a single ship, as distinct from a fleet of ships.

Sinking Fund (commercially).—A sum set aside periodically out of the profits of a concern, and invested outside the business, in order to accumulate a certain sum at a given date for some specified purpose, *e. g.* the redemption of debentures. The interest arising out of the Sinking Fund investments is itself periodically reinvested and allowed to accumulate with the periodical contributions of principal. With regard to the borrowings of States and Municipalities the phrase "Sinking Fund" is applied to the periodical amounts applied either in paying off portions of the loan or in the purchase (for the purpose of cancellation) of the bonds or stock in the open market, thereby gradually extinguishing the indebtedness.

Slip.—A memorandum employed in marine insurance, issued by the underwriter, setting forth briefly the terms of the formal policy which is in course of preparation.

Specialty.—A contract by deed. (See "Deed.")

Statement.—An account rendered at stated intervals. The dates, particulars, and amounts of all goods delivered to the recipient of the Statement since the date of the last settlement are set out, together with any credits which may have accrued. The balance of the Statement shows the net amount due to date.

Statutes of Limitation.—A series of Acts, dating back to early days, wherein the period within which actions may be brought are fixed. (See "Limitation of Actions.")

Stocks.—See "Investments."

Stoppage in transitu.—An unpaid seller of goods has the right to stop them in transit, and to retain possession of them until they are paid for. Goods are deemed to be in transit until such time as the buyer or his agent has actually taken possession of them. The right does not exist except in cases of insolvency.

Subpœna.—An order issued by a competent court directing the attendance of any specified person before the court, usually for the purpose of giving evidence.

Surety.—One who becomes "bond" or "guarantee" for another.

Surrender Value.—The amount which will be paid by an insurance company upon the surrender to it (for cancellation) of a policy issued by it. The regulations regarding the Surrender Value of a given policy are frequently contained in the policy itself. In the case of life policies the Surrender Value is commonly small, being frequently about one-third of the total amount of the premiums paid upon it, plus the cash value of any bonus additions should the policy be a "with profit" one. Life Policies can usually be sold by auction for slightly more than their Surrender Value In arriving at the Surrender Value of a life policy the usual practice of the British companies is to strike one-third off the reserve value. These reserves are usually calculated upon a 3 per cent. basis, whereas, in the open market, reversions approximate more nearly to valuations based upon 4 to 5 per cent. interest, as a general rule. In the majority of cases no policy of life insurance carries any Surrender Value until the premiums for three complete years have been paid.

Talon.—The ticket or certificate attached to a bond entitling the holder of it to a further supply of interest coupons when those originally provided have all matured. (See "Coupon.")

Tare.—See Chap. XIV.

Taxation of Bills of Costs (Legally).—The examination by officers of the law courts of the Bills of costs rendered by solicitors to their clients or to their opponents in litigation. The "**Taxing Master**" (as the officer is called) has authority to disallow improper or incorrect charges.

Terms of Sale or Payment employed by traders are frequently expressed or contracted as follows: *C. I. F.* = cost, insurance and freight (meaning that the price quoted includes insurance and freight charges); *C. O D.* = Cash on Delivery; *F. A. S.* = free alongside the ship; *F. O. B.* = free on board the ship; *Prompt Cash* means variously from 1 to 5 days credit; *5 per cent. within 1 month* indicates that if paid within one month a discount of 5 per cent. will be allowed.

Testator.—See "Will."

Tontine.—An annuity with benefit of survivorship among the subscribers or nominees. Not now met with in this country.

Treasury Bills.—Bills, usually payable at three or six months after their date, sold by the Treasury, usually by tender, in order to raise funds temporarily for the Government. They bear no interest, but are issued at a discount.

Trust, Trustee.—Where a person holds the ownership of property on behalf of another person the property is said to be held "in trust," and the holder of property "in trust" is termed a "Trustee."

Turnover.—A trader's total sales for a given period.

Voucher.—A written acknowledgment or "receipt" for money paid; any documentary evidence put forward to support the accuracy of accounts. A voucher for an account of £2 and over requires a penny stamp, which must be cancelled.

Warranty.—A guarantee or a stipulation in a contract.

Waste Book.—A rough memorandum book in which, formerly, a trader's transactions were entered as they took place; the "Journal" was written up from the information afforded by the Waste Book. The book is scarcely ever met with now-a-days except in old-fashioned text-books. In banks, at the present day, the books in which the cashiers' receipts are classified for collection purposes (*e.g.* "town cheques," "country cheques," etc.) are sometimes termed **Waste books**; they are usually written up by clerks seated behind the receiving cashiers.

Watered Stock.—A phrase signifying the creation and issue of additional stock by a body which has already made issues of stock for cash, the additional stock being issued without any additional payment in cash, *e. g.* as a "bonus."

Will.—The declaration of a testator's directions in regard to the disposal of his property after his decease. Wills must be (1) in writing; (2) signed by the person making it; (3) witnessed by two persons present at the same time.

CHAPTER XXVI

EXAMINATION PAPERS

THE following pages contain a selection of examination papers and questions in book-keeping which have been presented to candidates for solution at the various public examinations to which they relate. The papers cover in all twenty-nine separate and distinct grades of examinations in the subject, and the standard of each of these twenty-nine examinations possesses, in all probability, certain characteristics which differentiate it from the others. As between consecutive papers set at the examinations of any given body there is not infrequently a strong family likeness, but between the papers set at the examinations of different public bodies there is to be found great diversity of form and style.

The papers range in difficulty from the more or less elementary questions set at examinations of a scholastic nature to the advanced papers set at the highest grade examinations of the various commercial and technical institutions. A selection of papers which have formed part of various professional examinations is appended, and also a few of the less difficult questions set at the examinations of the various bodies of professional accountants.

The author desires to record his indebtedness to each of the public bodies whose examination papers are included in this present volume for their courteous permission to reproduce the questions.

UNIVERSITY OF OXFORD LOCAL EXAMINATIONS, July 1908.

SENIOR AND JUNIOR CANDIDATES.

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[1½ hours allowed.]

[You will receive, with this paper of questions, sheets of ruled paper representing the "Cash Book," "Journal," and "Ledger," together with a sheet for the Trial Balance. The work is to be done on these.]

1. On January 1, J. Reynold and C. Thompson enter into partnership. Their capital is £750 and £500 respectively. An account is

opened with the L. & S.W. Bank, and these amounts are placed to the Firm's credit. They purchase the lease of premises from Messrs. Salter for £150, paying £50 by cheque and giving Messrs. Salter Bill at one month for the balance.

2. The following are their business transactions for the quarter ending March 31—

			£	s.	d.
Jan.	1.	Purchased Goods from—			
		Chamberlain & Co.	270	10	6
		Foster Bros.	80	8	0
		R. Ferris	144	12	0
		Brown & Son	104	9	6
,,	3.	Paid Messrs. Sewell & Co. by cheque for fitting up premises	80	10	0
,,	5.	Purchased Motor Wagon for delivery of goods for	320	0	0
		Paid cheque for same.			
,,	5.	Drawn from Bank for Petty Expenses	60	0	0
,,	12.	Paid Chamberlain & Co. by cheque	100	0	0
,,	20.	Paid Foster Bros. by cheque	80	8	0
,,	24.	Paid into Bank, cheque received from Mr. Roberts for sales to him	144	12	6
,,	27.	Paid by cheque R. Ferris (Discount deducted, £3 12*s.* 4*d.*)	140	19	8
,,	31.	Paid Wages for month by cash	24	10	0
,,	31.	Cash Sales for month	155	7	6
Feb.	2.	Purchased Goods from—			
		Chamberlain & Co.	323	2	6
		Brown & Son	326	17	6
,,	4.	Messrs. Salter's Bill duly met.			
,,	12.	Paid Brown & Son by cheque	104	9	6
,,	12.	Paid Chamberlain & Co. by cheque	170	10	6
,,	16.	Drawn from Bank for Petty Expenses	60	0	0
,,	28.	Paid Wages for month by cash	25	10	0
,,	28.	Paid into Bank, being Cash Sales for month	460	0	0
Mar.	2.	Sold Goods to Mr. Roberts	125	0	0
,,	3.	Purchased Goods from—			
		Chamberlain & Co.	260	10	0
		Foster Bros.	119	10	0
,,	24.	Received from Mr. Roberts cheque in settlement of his account (Discount allowed, £6 5*s.*).			
,,	31.	Paid Rent for quarter by cash	25	0	0
,,	31.	Paid Wages for month by cash	25	10	0
,,	31.	Paid into Bank, being Cash Sales for month	441	0	0
,,	31.	The Petty Expenses for quarter paid by cash amounted to	111	10	0

The sum of £40 5*s.* was owing by customers at the end of Quarter for Sales.

Senior and Junior Candidates.—Write up the Cash Book and the necessary Journal Entries for the above and post the items to their respective accounts in the Ledger. Show in Cash Book the Cash and Bank balances on March 31. Also prepare Trial Balance.

Senior Candidates only.—After writing £5 off Lease and 5 per cent. depreciation off Plant, Fittings, and Fixtures, etc., prepare Profit and Loss Account and Final Balance Sheet on March 31.

The value of Stock on hand on March 31 was £628 8*s.* 2*d.* Net profit to be divided in proportion to Capital.

Note.—Cash and Cheques are not to be journalized, nor is it necessary to open a Cash and Bank Account in Ledger.

UNIVERSITY OF OXFORD LOCAL EXAMINATIONS, March 1909.

SENIOR AND JUNIOR CANDIDATES.

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[1½ hours allowed.]

[You will receive, with this paper of questions, six pages of ruled paper representing the "Cash Book." The work is to be done on these.]

The following is a Trial Balance of my accounts as on December 31, 1907. The Stock on hand at that date was £1,200.

Prepare—

(*a*) Trading Account showing Gross Profit.*
(*b*) Profit and Loss Account showing Net Profit.*
(*c*) Balance Sheet.†

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Purchases	8,500	0	0			
Bills Payable				620	0	0
Machinery and Plant	1,200	0	0			
Capital Account				10,000	0	0
Drawings Account	2,000	0	0			
Buildings	6,000	0	0			
Mortgage on Buildings				3,000	0	0
Manufacturing Wages	2,700	0	0			
Salaries	1,300	0	0			
Rates and Taxes	210	0	0			
Sales				21,980	0	0
Purchase Returns				815	0	0
Rates and Taxes (Manufacturing Charge)	300	0	0			
Lighting and Power (Manufacturing Charge)	290	0	0			
Cash Sales				1,200	0	0
Sales Returns	1,000	0	0			
Cash in hand and at Bank	1,600	0	0			
Depreciation of Machinery	110	0	0			
Repairs to Plant and Premises	85	0	0			
Bills Receivable	3,400	0	0			
Sundry Debtors	6,500	0	0			
Depreciation of Buildings	90	0	0			
Interest on Mortgage	150	0	0			
Stock on hand (Jan. 1, 1907)	1,900	0	0			
Discounts allowed	92	10	0			
Travelling and General Expenses	187	10	0			
	£37,615	0	0	£37,615	0	0

Interest on Capital must be written up at the rate of 10 per cent. per annum, and provision of £1,000 made for Bad and Doubtful Debts.

* Questions marked thus were to be worked by all Candidates.
† The question marked thus was only to be worked by "Senior" Candidates.

UNIVERSITY OF OXFORD LOCAL EXAMINATIONS,
July 1909.

SENIOR AND JUNIOR CANDIDATES.

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[1½ hours allowed.]

[You will receive, with this paper of questions, sheets of ruled paper representing the "Cash Book," "Journal," and "Ledger," together with a sheet for the Trial Balance. The work is to be done on these.]

1. On July 1, 1907, I had a balance at my Bankers of £1,200, being my Capital. I purchased from Messrs. Snell & Co. their business of Leather Dressers, taking over the whole of their Assets and Liabilities for the sum of £1,000, which I paid by cheque the same day.

The Assets and Liabilities comprised—

	£	s.	d.		£	s.	d.
Goodwill	200	0	0	Trade Creditors .	250	0	0
Plant	500	0	0	Bill Payable . .	150	0	0
Debtors	300	0	0				
Stock-in-trade . .	300	0	0				
Bill Receivable .	100	0	0				

2. The following were the transactions for July, August and September—

		£	s.	d.
July 3.	Received at Bank on account Sundry Debtors	285	0	0
	And allowed as Discount	15	0	0
,, 12.	Sold to Jones, Goods value	120	0	0
,, 15.	Bought from Taylor, Goods value	200	0	0
,, 19.	Jones advised damage of Goods in transit, allowed for same	10	0	0
,, 23.	Cash Sales	45	0	0
,, 28.	I advised Taylor shortage in quantity of Goods bought from him, he allowed me .	25	0	0
Aug. 6.	Accepted Taylor's Bill at one month for. .	175	0	0
,, 10.	Drew Bill on Jones for one month, he accepted same	110	0	0
,, 14.	Paid repairs to Plant by cash.	22	0	0
,, 19.	Sold to Smith small portion of Plant, received cash	30	0	0
Sept. 4.	Sold Goods to Evans	160	0	0
,, 5.	Received cheque from Evans	160	0	0
,, 9.	Bill Payable, duly paid by Bank for . .	150	0	0
,, 10.	Taylor's Bill duly paid by cash	175	0	0
,, 12.	Cash for Jones's Bill duly received by Bank .	110	0	0
,, 15.	Paid to Trade Creditors by cheque, accounts amounting to £220, they allowed me Discount of £12.			
,, 16.	Sold Goods to Robinson value £200. He paid cash and I allowed him discount of £10.			
,, 18.	Sold Goods for cash value	85	0	0
,, 19.	Purchased Goods for cash value	60	0	0
,, 30.	Petty Expenses paid by cash	10	9	0
,, 30.	Paid Wages by cheque	25	6	8
,, 30.	Paid Rent by cheque	50	13	4
,, 30.	Paid Rent by cash	5	0	0
,, 30.	Paid cash to Bank	50	0	0

Senior and Junior Candidates.—Write up the Cash Book with Columns for Discount, Cash, and Bank. Make the necessary Journal Entries for the above, and post all items to their respective accounts in the Ledger. Show in Cash Book the Cash and Bank Balances as on September 30. Also prepare Trial Balance.

Senior Candidates only.—The Stock on hand on September 30 was £223 4*s.* After making provision for depreciation of Plant at the rate of 10 per cent. per annum, you are required to prepare—

(1) Profit and Loss Account.
(2) Balance Sheet.

Note.—Cash and cheques are not to be journalized, nor is it necessary to open a Cash and Bank Account in the Ledger. All cheques are paid direct into Bank.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1907.

Stage I.—Elementary.

[3 hours allowed.]

[Candidates are expected to rule the necessary cash columns and other lines for themselves.]

Question 1.—What is the difference between an "Invoice" and a "Statement"?

Question 2.—What do you understand by the signs "Dr." and "Cr."?

Question 3.—What is the object of "closing a Ledger," and how is it effected?

Question 4.—Explain the "Imprest" System of keeping Petty Cash. Give an example.

Question 5.—Write up an account with your Bankers, recording the following transactions: Jan. 1, 1907. Balance to your credit at the Bank, £3,387 5*s.* 6*d.*; Jan. 3. Paid W. Smith, £600; Jan. 5. Paid in, £218 5*s.* 7*d.*; Jan. 12. Paid J. Brown on account, £1,000; Jan. 19. Paid H. Wilson, £671 3*s.* 2*d.*; Paid J. Brown on account, £1,000; Jan. 26. Paid in, £1,461 2*s.* 1*d.*; Paid J. Brown (balance), £781 2*s.* 3*d.*; Jan. 28. Paid H. Shepherd, £81 2*s.* 8*d.*; Jan. 31. Paid in, £8 10*s.* 3*d.* Balance the account and bring down the balance.

Exercise.—J. Cripps commenced business as a Coal Merchant on Oct. 1, 1906, with the following assets: Cash, £200; Plant and Fixtures, £60, and Horse and Cart, £30. He opened an account with the Union Bank, into which he paid his initial capital and all cash received. During October the following transactions took place: Oct. 3. Purchased Coal from the X.Y. Colliery Co., Ltd., £160; Oct. 8. Sold Coal to T. Philipps, £20; Oct. 12. Sold Coal to J. Hall, £110; Oct. 15. Purchased Coal from the X.Y. Colliery Co., Ltd., £360; Oct. 16. Received Cash from T. Philipps, £20; Oct. 17. Received Cash from J. Hall (on account), £80; Oct. 24. Paid cheque to the X.Y. Colliery Co., Ltd., £200. Open the necessary Ledger accounts and post, direct, the above facts and transactions. Balance these accounts as on October 31, 1906, and bring down the balances.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1907.

Stage II.—Intermediate.

[3 hours allowed.]

(*Only one question to be answered, but both exercises to be worked.*)

Question 1.—What system of Book-keeping would you recommend to a trader starting in business? Explain the various books which should be kept, so as to enable him to ascertain in the shortest time and most reliable manner the results of his business operations.

Question 2.—What is the difference between gross profit and net profit? Illustrate your answer by means of *pro formâ* Trading and Profit and Loss Accounts applicable to the business of a Timber Merchant.

Exercise I.

W. Brown, a Wine and Spirit Merchant, had on December 31, 1905, the following Assets—

	£	s.	d.
Cash at Bank	500	0	0
Cash in hand	50	0	0
Port Wine, 5 pipes at £60	300	0	0
Sherry, 5 butts at £50	250	0	0
Owing by H. Johnson	50	0	0
Bill Receivable (J. Smith, due Jan. 12, 1906)	250	0	0
Office Furniture	100	0	0
	£1,500	0	0

His Liabilities on the same date were—	£	s.	d.
Due to A. Robinson	90	0	0
Due to W. Walters	60	0	0
Bill Payable (A. Robinson, due Jan. 6, 1906)	50	0	0
	£200	0	0

On January 1, 1907, a company was formed, with a capital of £2,500 in £1 shares, to purchase W. Brown's business; and it was agreed that the purchase price should be an amount equal to his capital in the business on December 31, 1905, to be paid as to £500 in cash, and the balance in fully paid shares, the company taking over all the Assets and Liabilities of the business. The remaining shares were issued to the public and were duly subscribed, allotted, and paid up.

You are required to make the necessary entries recording the above, and to pass through the proper books the following transactions—

1906.

Jan. 2. Drew cheque for Petty Cash, £30.

,, 2. Sold to H Johnson 10 dozen of Sherry at 25*s*. a dozen and 1 pipe of Port at £70.

,, 2. Bought of W. Glass 30 dozen quart bottles at 2*s*. a dozen and 15 dozen pints at 1*s*. 6*d*. a dozen.

,, 3. Paid cash for Dock charges, £2 15*s*.

,, 3. Bought from J. Lewis 10 hogsheads of Brandy at £40, giving him a Bill at 2 months, he allowing $2\frac{1}{2}$ per cent. Discount.

1906.

Jan. 3. Paid Wages and Office Salaries, drawing and cashing cheque for same, £4.

,, 4. Received from H. Johnson on account, £50.

,, 5. Paid Preliminary Expenses in connection with the formation of the Company, including legal charges, £100.

,, 6. Bought of A. Robinson 2 pipes of Port at £55 and 6 10-gallon casks of Whisky at £8 a cask.

,, 6. Bill Payable (A. Robinson) paid by Bank, £50.

,, 7. Paid W. Walters's account, less $2\frac{1}{2}$ per cent. Discount.

,, 8. Paid cash for repairs to Cellar Door, £10 9*s.* 8*d.*

,, 9. Drew cheque for Petty Cash, £5.

,, 10. Paid Wages and Office Salaries, drawing and cashing cheque for same, £6.

,, 10. Received cheque from H. Johnson in settlement of his account, less 5 per cent. Discount on the whole of his purchases from January 1.

,, 10. Paid J. Smith's Bill for £250 to the Bank.

,, 12. Bill Receivable given by J. Smith for £250 returned dishonoured.

,, 14. Sold to T. Kino 3 dozen Whisky at 39*s.*, 2 dozen Port at 44*s.*, 5 dozen Sherry at 25*s.*, and 3 dozen Brandy at 60*s.*

All moneys received were at once paid into the Bank; and (unless stated otherwise) all payments were made by cheque.

Balance the Ledger accounts as on January 15, 1906; bring down the balances and extract a Trial Balance.

Note.—No Profit and Loss Account or Balance Sheet is to be prepared.

EXERCISE II.

Messrs. George Elliott and Philip Barker are partners in a manufacturing business. After providing 5 per cent. per annum interest upon their respective Capital Accounts, Profits and Losses are to be shared in the proportion of George Elliott three-fourths and Philip Barker one-fourth.

Before closing the books as on December 31, 1906, the following further adjustments have to be made—

1. Plant and Machinery Account is to be depreciated by 10 per cent.
2. Furniture and Fittings Account is to be depreciated by 5 per cent.
3. Provision is to be made for Bad and Doubtful Debts at 5 per cent.
4. One quarter's rent to be reserved for, only three quarters having been paid during the year.
5. £25 owing for Trade Expenses has not been passed through the books.
6. Stock, taken as on December 31, 1906, was valued and agreed as between the partners at £1,250, the stock having been taken at cost with suitable deductions for old stock.

From the following Trial Balance of the Ledger accounts, after making the necessary adjustments, prepare a Trading Account and a Profit and Loss Account for the year ended December 31, 1906, and a Balance Sheet as on that date. Show the Partners' Accounts in detail in the Balance Sheet.

TRIAL BALANCE, *December* 31, 1906.
(*Which is not to be copied.*)

	£	s.	d.	£	s.	d.
George Elliott, Capital (Jan. 1, 1906)				3,000	0	0
Philip Barker, Capital (Jan. 1, 1906)				1,000	0	0
George Elliott, Drawings (including interest)	317	0	0			
Philip Barker, Drawings (including interest)	133	0	0			
Furniture and Fittings	550	0	0			
Plant and Machinery	750	0	0			
Stock (Jan. 1, 1906)	950	0	0			
Office Expenses	250	0	0			
Trade Expenses	150	0	0			
Wages (manufacturing)	900	0	0			
Salaries	425	0	0			
Carriage	125	0	0			
Purchases	1,680	0	0			
Purchases Returns				150	0	0
Sales				3,390	0	0
Sales Returns	125	0	0			
Bad Debts	80	0	0			
Rent	120	0	0			
Rates, Taxes	40	0	0			
Gas and Water	25	0	0			
Interest and Discount				35	0	0
Reserve for Bad and Doubtful Debts (Jan. 1, 1906)				45	0	0
Sundry Debtors	1,250	0	0			
Sundry Creditors				680	0	0
Cash at Bank	300	0	0			
Cash in hand	130	0	0			
	£8,300	0	0	£8,300	0	0

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1907.

STAGE III.—ADVANCED.

[3 hours allowed.]

Question 1.—Give the form of Balance Sheet as provided by law for *one* of the following undertakings: (*a*) Gas Company; (*b*) Railway Company; or (*c*) Insurance Company.

Question 2.—A manufacturer, whose business is divided into the three departments of knitted mufflers, sailors' jerseys, and woollen gloves, adopts the following method of recording his sale transactions. When goods are dispatched, an Invoice is made out in an Invoice Carbon Copy Book, and sent to the purchaser. The Carbon Copy Book is then handed to the Ledger Clerk, who writes the Ledger folio of the customer's account under the total of the Copy Invoice, and posts the item to the debit of the customer's account in the Ledger thus—

Invoice No.

April 1, 1907. To goods, N.B. 0001. £59 12*s.* 10*d.*

Does this method appear to you to provide an adequate record for book-keeping purposes? If not, what would you suggest and with what object?

Question 3.—What special suggestions would you suggest should be given at the time of "Stock-taking" to the clerks who are responsible for checking inwards invoices and have charge of the Purchase Book and Purchase Ledger, so as to insure the accuracy of the figures representing Purchases, Expenses and Stock as appearing in the Trading Account for the period under review.

Question 4.—George Hargreave commenced business as a builder on January 1, 1906. He owns a gravel pit, from which he obtains material useful to him in executing his building contracts. From the following figures, obtained from his books, you are required to prepare the gravel pit Working Account for the past year to December 31, 1906, so as to enable him to charge the gravel he uses for his various contracts at the cost price per load. The gravel pit is leased to him for 24 years at a rental of £10 a year, and this he has duly paid. The equipment, consisting of the necessary screening machinery, etc., has cost him £552. The wages of the men at the pit for the year have been £247, while supplies to the department, issued from the general stores (as shown by the store-keeper's records) were implements, £43 15*s*. 6*d*., coal and coke, £20 5*s*. 5*d*., and sundries, £11 11*s*. 1*d*. Sales of gravel at the pit to outside purchasers amounted to 1,568 loads at 2*s*. 6*d*. per load. Mr. Hargreave has used on his contracts during the year 2,304 loads of gravel, carted from his pit with his own carts, to cover which he has charged his gravel pit Working Account 4½*d*. a load. In preparing the account you are required to provide for writing off the value of the equipment over the period of the lease by equal annual amounts; and, as he allows the pit the benefit of any profit on outside sales, to charge the working account with interest at 5 per cent. per annum on the equipment.

Exercise.—The John Smith and Steel Nib Co., Ltd., was registered on and took over the business of John Smith as from January 1, 1906. John Smith sold his business to the Company upon the following valuation—

	£	*s*.	*d*.
Buildings (on Leasehold Premises with 21 years to run from January 1, 1906)	7,500	0	0
Machinery and Plant	11,650	0	0
Stock and Materials	3,872	0	0
Goodwill	10,000	0	0

The Company took over the Book Debts, which John Smith guaranteed, while he discharged the liabilities existing on December 31, 1905. The Company was registered with a Nominal Capital of £80,000 divided into 80,000 shares of £1 each. Of these 25,000 fully paid shares were allotted to the Vendor as part consideration for the sale of the business, the balance being paid to him in cash. Twenty thousand shares were offered to, subscribed, and fully paid by the public, with the exception of 200 shares, on which 10*s*. per share had been paid, and which were forfeited during the year 1906, by resolution of the Board of Directors, owing to the non-payment of the final call of 10*s*. per share. The books were closed on December 31, 1906, and stock taken as on that date, amounting to £6,760.

You are required to write off one-twentieth of the value of the buildings (to provide for the expiration of the Lease); 8 per cent. of the Machinery and Plant (as depreciation); one-fourth of the Preliminary Expenses; and 5 per cent. from the Book Debts (as provision against bad and doubtful debts); and then prepare the Company's

Trading Account and Profit and Loss Account for the year to December 31, 1906, and Balance Sheet as on that day. The balances of the Ledger accounts then, in addition to those resulting from the above transactions, were (*not to be copied*)—

	£	s.	d.
Purchases	35,720	0	0
Rent	76	0	0
Rates and Taxes	211	0	0
Wages	8,241	0	0
Salaries	917	0	0
Manufacturing Expenses	2,163	0	0
Sales	49,798	0	0
Returned Purchases	311	0	0
Returned Sales	763	0	0
Discounts received	561	0	0
Discounts allowed (of which £239 were allowed on debts, which were guaranteed in full by John Smith, and are payable by him)	1,033	0	0
Office Expenses	1,006	0	0
Directors' Fees	200	0	0
Sundry Debtors	12,380	0	0
Sundry Creditors	4,467	0	0
Preliminary Expenses	400	0	0
Bad Debts (of which £187 were in respect of the debts guaranteed by John Smith, and are payable by him)	206	0	0
Cash at Bank	3,599	0	0
Auditors' Fees	100	0	0

State what dividend you would recommend to be paid to the shareholders, and what balance of Profit and Loss Account would be carried forward to the next year.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1908.

Stage I.—Elementary.

[3 hours allowed.]

1. What is a voucher? Briefly describe the system upon which you would arrange vouchers in a business.

2. What entries are necessary in my books to record the fact that A. has become my creditor for goods supplied by him to me?

3. In the following account—

John Jones in account with William Smith.

1908.
Feb. 22. To Welsh Coal supplied, by J. Jones's order to S. McNeil, at Glasgow £256 5 10

who owes the £256 5*s.* 10*d.*, and to whom is it owing?

4. Write up a Cash Book recording the following transactions—

1908.			£	s.	d.
Jan.	1.	Balance in hand this day	217	10	1
,,	3.	Paid into Bank	100	0	0
,,	4.	Received from Tom Smith	69	10	0
,,	4.	Allowed Discount to him	0	10	9
,,	7.	Received from E. Owen and paid into Bank	116	1	9
,,	10.	Paid one quarter's Rent	30	0	0
,,	10.	Paid G. Nash by cheque on Bankers	151	12	10
		Discount allowed thereon	4	7	2

Balance the account and bring down the balance.

5. On which side of the following accounts should the balance, if any, always be, and why?—

Bills Payable, Bills Receivable, Cash.

Exercise.

6. On December 1, 1907, Charles Dickson commenced business with the following Assets: Cash at Bank, £500; Cash in hand, £100; and Fixtures, £150. The following transactions took place during December—

Dec. 2. Purchased Goods of T. Bell, value £100; Dec. 3. Purchased Goods of Black & Co., value £80, for cash, and paid him for same; Dec. 9. Sold to W. Brown Goods value £50; Dec. 16. Paid T. Bell's Account by cheque, less 5 per cent. Discount; Dec. 18. Sold Goods to R. Walters value £10; Dec. 31. Received of W. Brown cash in settlement of his account, less 2½ per cent. Discount. Open the necessary Ledger accounts and post direct the above facts and transactions. Balance these accounts as on December 31, 1907, and bring down the balances.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1908.

Stage II.—Intermediate.

[3 hours allowed.]

(*Only one question to be answered, but both exercises to be worked.*)

1. On which side of the Ledger would you expect to find the balance of the undermentioned accounts? Give a brief reason in each case—

(*a*) Reserve for Bad and Doubtful Debts.
(*b*) Goodwill Account.
(*c*) Suspense Account for Insurances paid in advance.
(*d*) Freehold Property Account.

2. Explain the following: "Reserve Fund," "Rebate," "Sinking Fund," "Depreciation."

Exercise I.

John Druce, a Cycle Dealer, had on December 31, 1907, the following Assets—

	£	*s.*	*d.*
Cash at Bank	300	0	0
Cash in hand	25	0	0
Stock	650	0	0
Furniture and Fittings	120	0	0
Bills Receivable—			
A. Graves (due Jan. 9, 1908)	75	0	0
B. Walters (due Jan. 10, 1908)	125	0	0
Owing by—			
A. Brown	25	0	0
J. Smith	45	0	0
A. Graves	20	0	0
B. Walters	10	0	0
M. Robinson	105	0	0
	£1,500	0	0

His Liabilities on the same date were—

	£	s.	d.
Due to H. Sweeting	150	0	0
Due to A. Fisher	75	0	0
Bills Payable—			
S. Unwin (due Jan. 6, 1908)	90	0	0
F. Lord (due Jan. 8, 1908)	85	0	0
	£400	0	0

John Druce agreed to take M. Robinson into partnership conditionally upon the amount owing by him to John Druce on December 31, 1907, being paid at once; also upon his bringing into the business, in cash, the same amount of capital as was standing to the credit of John Druce's Capital Account at this date. One-half of this latter amount was to be paid out in cash, by way of premium, to John Druce, and was to appear in the books of the partnership as Goodwill. These conditions were duly carried out as on January 1, 1908.

You are required to make the necessary entries recording the above and to pass through the proper books the following transactions—

1908.

Jan. 1. Bought of H. Sweeting 1 dozen Bicycle Frames at 15*s.* each.

,, 1. Bought for cash 4 dozen Wooden Crates at 3*s.* each.

,, 2. Sold A. Brown 3 Bicycles at £7 10*s.* each, one of which was returned on January 3.

,, 3. J. Smith paid his account, deducting £2 for Bicycle damaged in transit.

,, 3. Sold B. Walters 2 Bicycles at £8 8*s.* each, charging him with 2 Crates at 3*s.* 6*d.* each.

,, 3. Bought of A. Fisher 6 pairs of Wheels at 30*s.* a pair and a job lot of Accessories for £5.

,, 4. Paid Office Salaries and Wages, drawing and cashing a cheque for same, £6 10*s.*

,, 4. Each partner drew out in cash £3 on private account.

,, 6. Paid A. Fisher by cheque £25 on account.

,, 6. Bill Payable (S. Unwin), due this day, paid by Bank.

,, 6. Sold J. Smith 1 Bicycle for £7 10*s.*, upon which he paid £2 on account.

,, 7. Bought for cash 2 second-hand Bicycles at 15*s.* each, one of which was sold for cash the same day for 25*s.*

,, 7. Cashed cheque for £10 for Petty Cash purposes.

,, 8. Bill Payable (F. Lord), due this day, paid by Bank.

,, 8. B. Walters paid the balance of his account as on this day, deducting 5 per cent. Discount, which was disallowed.

,, 9. Bill Receivable given by A. Graves returned dishonoured, a new Bill at 1 month being given for the whole of his account.

,, 9. Sold to B. Walters 20 Brakes at 2*s.* each and 6 Lamps at 5*s.* each.

,, 9. Bought of F. Lord 6 dozen Lamps at 3*s.* each

,, 10. Bill Receivable, B. Walters, duly met.

1908.
Jan. 10. Sold A. Graves a second-hand Bicycle for 30s.
,, 11. Paid Office Salaries and Wages, drawing and cashing cheque for £6.
,, 11. Each partner drew in cash £3 for private purposes.
,, 11. A. Brown accepted a Bill at 3 months drawn upon him for the balance owing by him at this date.

All moneys received were paid at once into the Bank. Balance the Ledger accounts as on January 11, 1908, bring down the balances, and extract a Trial Balance.

Note.—No Profit and Loss Account or Balance Sheet to be prepared.

EXERCISE II.

From the following Trial Balance of the accounts of a Manufacturing Company (whose authorized Capital consists of 15,000 Ordinary Shares of £10 each) prepare a Trading Account and a Profit and Loss Account for the year ended December 31, 1907, and a Balance Sheet as on that date.

	£	s.	d.	£	s.	d.
Capital issued and fully paid up, 9,000 shares of £10 each				90,000	0	0
Stock (January 1, 1907)	32,000	0	0			
Cash in hand	150	0	0			
Cash at Bank	2,900	0	0			
Purchases	52,350	0	0			
Sales				136,500	0	0
Sales Returns	400	0	0			
Purchases Returns				750	0	0
Manufacturing Charges	11,500	0	0			
Manufacturing Wages	28,550	0	0			
Salaries	1,500	0	0			
Trade Expenses	6,850	0	0			
Rates and Taxes	250	0	0			
Insurance	190	0	0			
General Expenses	2,640	0	0			
Discounts (balance)	1,800	0	0			
Bad Debts	570	0	0			
Interest and Bank Charges	350	0	0			
Land and Buildings	22,250	0	0			
Machinery and Plant	35,600	0	0			
Sundry Debtors	52,500	0	0			
Sundry Creditors				21,750	0	0
Patents	5,000	0	0			
Bad Debts Reserve (January 1, 1907)				2,600	0	0
Profit and Loss (balance, December 31, 1906)				750	0	0
Reserve				5,000	0	0
	£257,350	0	0	£257,350	0	0

Charge depreciation on Land and Buildings Account at 3 per cent. per annum, and on Machinery and Plant Account at 6 per cent. Make a reserve of 5 per cent. on the Sundry Debtors for Bad Debts; write down Patents Account by 10 per cent.; carry forward £90 of Insurance; and charge £500 as Directors' Fees. The value

of the Stock as on December 31, 1907, was agreed at £23,700. Charge 10 per cent. on net profits as remuneration to the Managing Director, and appropriate £2,500 to the Reserve Account, carrying forward the balance.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1908.

Stage III.—Advanced.

[3 hours allowed.]

1. If, on comparing your Bank Cash Book balance with your Bank Pass Book balance, you found that the two did not agree, what steps would you take to check the correctness or otherwise of your Bank Cash Book, and what would be the principal differences you would expect to find?

2. What is a "Cumulative Preference Share"? The A. B. Company is three years in arrear with the dividends on its 1,000 6 per cent. Cumulative Preference Shares of £1 each. Would this fact affect the annual accounts? If so, how?

3. Give what you consider would be a satisfactory ruling for the Cost Sheet of a manufacturer, with whose accounts you are familiar. State from what books of account the necessary information for the completion of the Cost Sheet would be obtained.

4. A. and B. are partners in A. and B.'s Coal Stores, and they share profits and losses equally. On December 31, 1907, they had capital in the business: A. £3,100 and B. £2,600. The assets and liabilities of the firm, as on that date, stood at the following figures in the books: Office Furniture and Fittings, £320; Coal Trucks, £930; Trade Creditors. £848; Cash at Bank, £1,166; Carts, Plant, and Horses, £476; Bills Payable, £652; Sundry Debtors, £3,720; Cash in hand, £18; and Stock of Coal, etc., £570.

They agreed to take into partnership C., a coal agent, as from January 1, 1908, on the following terms:—Profits and Losses to be shared: A. two-fifths, B. two-fifths, and C. one-fifth. C. was to bring into the Partnership "Book Debts," amounting to £560 (less a reserve for Bad Debts of 5 per cent.), and the Goodwill of his connection, valued at £310; while his Capital in the new firm was to be £1,000, the balance of which he was to pay in cash on signing the Articles of Partnership on January 1, 1908. It was further agreed between A., B. and C. that the following adjustments should be made in the figures as shown on A. and B.'s Balance Sheet on December 31, 1907: The Coal Trucks were to be taken at £1,000, and the Carts, Plant, and Horses as at £550, the result of an independent valuation; a Bad Debt Reserve of 7½ per cent. was to be deducted from outstanding Debtors; the Goodwill of the old firm (A. and B.) was to be taken at £455; and A. was to be paid out from the Bank Balance such a sum as would make his Capital equal to B.'s. The Agreement was carried out.

You are required (*a*) to make the Journal entries necessary to complete the above adjustments, and (*b*) to draw up a Balance Sheet showing the position of the new firm as on January 1, 1908.

Exercise.

The Albury Mining Company, Ltd., was registered on January 1, 1907, and commenced operations at once as an Exploring and Mining Company. The nominal Capital consisted of 50,000 Ordin-

ary Shares of £5 each. Of this Capital 20,000 shares were issued and taken up by the public, 30s. per share being called up. During the process of sinking a shaft, a good deposit of clay was found, suitable for tile-making, and the Company decided to manufacture and sell tiles, as a separate trading department. During the month of December, the Company's engineer reported that a paying vein of tin had been reached; and the Directors decided that the cost to date of opening up this vein should be capitalized and written off over future years when the property was in full working order.

On December 31, 1907, the balances of the Ledger accounts of the Company were as follows :—

	£	s.	d.
Freehold Land at cost	7,000	0	0
Buildings at cost	563	0	0
Preliminary Expenses	410	0	0
Stock of Stores and Coal on December 31, 1907	988	0	0
Coal consumed	931	0	0
Wages	3,843	0	0
Salaries	308	0	0
Stores used	2,745	0	0
Stores used (Tile Dept.)	56	0	0
Wages (Tile Dept.)	2,733	0	0
Machinery and Plant at cost	12,038	0	0
Capital	30,000	0	0
Sundry Debtors	359	0	0
Rates, Taxes, Office, and Sundry Expenses, and Carriage	584	0	0
Carriage (Tile Dept.)	215	0	0
Legal Expenses (*re* Claim for injuries in Mine Accident)	220	0	0
Sales of Tiles	2,599	0	0
Sundry Creditors	3,407	0	0
Tramway Track and Wagons at cost	1,100	0	0
Travellers' Commission (Tile Dept.)	63	0	0
Bills Payable	627	0	0
Cash at Bank	2,477	0	0

You are required to prepare (*a*) an account showing the amount which you consider should be capitalized as representing the cost of opening up the tin vein, (*b*) an account showing the trading results of the Tile Department for the year ended December 31, 1907, and (*c*) the Balance Sheet as on December 31, 1907.

The Directors decided that a charge of £343 should be made against the Tile Department, as representing power, coal, etc., used; and a charge of £104, as representing a share of general trade expenses.

The stock of tiles on hand as on December 31, 1907, was valued at £718.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1909.

Stage I.—Elementary.

[3 hours allowed.]

1. What do you understand by the terms "balance down," "trial balance," and "balance sheet"? What is the chief difference between the last two? Does the term "balance down," closing the debit side

of an account, mean that the account is in credit, or in debit, and why?

2. Give a form of Cash Book you would recommend as suitable for recording both cash and bank transactions. Start the book with a balance at the Bank, and draw a cheque in favour of "self," the proceeds of which are to be used in making cash payments. Make six further entries on the debit side, paying all receipts into the Bank, and six further entries on the credit side, three being cash payments and three payments by cheque; balance the Cash Book and carry down the balances.

3. On February 27, 1909, John Jones sold William Smith 3 lbs. of tea at 1*s.* 9*d.*, 2 lbs. of sugar at 6½*d.*, 2 ozs. of Jordan almonds at 2*s.* 6*d.* per lb., and 3 tins of potted salmon at 5*s.* 4*d.* the dozen. Make an Invoice of the goods supplied.

4. On April 3, 1908, Thos. Fisher sold George Kent goods to the amount of £30 15*s.*; on May 4, Kent paid Fisher £20 5*s.* on account; on April 30, Fisher sold Kent £45 10*s.* of goods; on May 31, Kent paid Fisher £32 10*s.* on account; on June 4, Kent returned to Fisher £5 10*s.* goods (not being up to sample); on June 12, Fisher sold Kent £42 8*s.* of goods; on June 30, Kent paid Fisher the balance owing upon the transactions of April 3 and 30, after deducting 2½ per cent. discount, together with a further amount of £20 on account. As on June 30, Fisher sent a three months' statement to Kent. Draw the statement so sent.

5. On May 31, 1908, George Kent paid Thos. Fisher £32 10*s.* He paid this by cheque on the Credit Banking Company, Ltd. Sketch the form of cheque he would use, and "draw" it, making it as secure as you can against loss by theft or mischance.

EXERCISE.

6. On January 1, 1908, J. Ferguson started business as a grocer, and paid £200 into the Union Bank by way of capital. On that day goods were delivered by McDonald & Co. to him which he had previously ordered to the value of £50, and for which he paid by cheque, deducting 5 per cent. discount for cash. The same day he made "cash sales" amounting to £4 6*s.* 2*d.*, which he paid into the Bank.

On January 2, he drew and cashed a cheque for £5 for petty cash purposes and purchased for cash 5*s.* worth of stamps and 15*s.* worth of stationery. The cash sales on this day amounted to £1 7*s.* 7*d.*, which he paid into the Bank; and he also sold goods on credit to Mrs. Murphy amounting to £2 4*s.* 6*d.*, and to Mr. Graham amounting to £1 4*s.* 4*d.*

On January 3, he bought further goods from McDonald & Co. amounting to £25 16*s.* 10*d.*, but this time the purchase was on "credit terms." On January 4, Mrs. Murphy paid £1 on account of the goods supplied to her, and this amount (together with the cash sales for two days, £4 3*s.* 7*d.*) was paid into the Bank. On the same day he supplied goods amounting to £1 16*s.* 10*d.* on credit to Mr. Graham, who, at the time of ordering, paid for the goods supplied on January 2, less 4*s.* 4*d.* discount, and this amount was paid to the Bank. On January 5 he bought goods on credit from W. McNab & Sons amounting to £14 12*s.* 8*d.*, and paid McDonald & Co.'s account, less 5 per cent. discount, by cheque.

Open Ledger Accounts and post direct the above transactions. Then balance the accounts, and bring down the balances.

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1909.

Stage II.—Intermediate.

[3 hours allowed.]

(*Only one question to be answered, but both exercises to be worked.*)

1. Explain briefly the following: "Goodwill," "Dead Rent," "Bill of Lading," "Bill of Sale," "Letter of Credit."

2. Which of the balances of the following accounts would you expect to find in the Balance Sheet, which in the Trading Account, and which in the Profit and Loss Account? Give your reasons in each case.

(*a*) Machinery Repairs and Renewals.
(*b*) Discounts allowed.
(*c*) Unexpired proportion of apprentice premiums.
(*d*) Transfer fees.
(*e*) Unclaimed dividends.
(*f*) Stock of goods and materials on hand.

Exercise I.

J. Bennett & Co., Ltd., had, on December 31, 1908, the following Ledger balances—

				Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Ordinary Share Capital							5,000	0	0
Preference Share Capital							5,000	0	0
Sundry Creditors—									
J. Jinks	£200	0	0						
F. Flint	800	0	0						
J. Smith	150	0	0						
Johnson & Co.	250	0	0						
							1,400	0	0
Profit and Loss Account							1,000	0	0
Stock				3,000	0	0			
Buildings				6,000	0	0			
Cash at Bank				1,000	0	0			
Bills Receivable—									
W. Cox (due Jan. 5, 1909)	£250	0	0						
J. Cooper & Co. (due Jan. 7, 1909)	250	0	0						
				500	0	0			
Sundry Debtors—									
Thomas Green	£100	0	0						
W. Cox	50	0	0						
J. Cooper & Co.	150	0	0						
A. Black & Co., Ltd.	250	0	0						
J. Jones	300	0	0						
Cook & Co.	1,050	0	0						
				1,900	0	0			
				£12,400	0	0	£12,400	0	0

You are required to open Ledger accounts recording the above

and to pass the following transactions through the proper books to the Ledger.

1909.		
Jan.	1.	Drew and cashed Petty Cash cheque, £5.
,,	1.	Sold W. Cox 120 yards of Silk at 5*s.* 6*d.* per yard.
,,	2.	Accepted Bills drawn by F. Flint, viz. three for £250 each, drawn at one month, two months and three months respectively. Paid Flint the balance of his account by cheque, deducting 2½ per cent. discount on the whole account as on December 31, 1908.
,,	2.	Bought for £4 10*s.* a parcel of Silk.
,,	2.	Drew and cashed cheque for Petty Cash and Wages, £15.
,,	2.	Paid Wages in cash, £12 10*s.*
,,	4.	Received from J. Cooper & Co. £50 on account.
,,	4.	Sold Thomas Green 20 yards of Irish Linen at 3*s.* per yard.
,,	4.	Bought of F. Flint 75 yards of Irish Linen at 2*s.* per yard.
,,	5.	Received fees on transfer of shares, 10*s.*
,,	5.	Paid, by cheque, Tool & Co., £47 10*s.* for repairs to buildings.
,,	5.	W. Cox's Bill due and paid to Bankers.
,,	6.	Sold A. Black & Co. 150 yards of Black Silk at 10*s.* per yard.
,,	6.	A. Black & Co. paid the whole of their account less 5 per cent. discount.
,,	7.	J. Cooper & Co.'s Bill due but not met. Two new Bills of equal amount given at one month and three months respectively to cover the whole amount due from them.
,,	8.	Bought of J. Jinks 9 pieces of Velvet, each of 40 yards, at 8*s.* 6*d.* a yard.
,,	8.	Received of Cook & Co. £250 on account.
,,	8.	Received a first and final dividend of 5*s.* in the £ on Thomas Green's account.
,,	9.	Paid, in cash, Carriage Account, 30*s.* Paid, by cheque, Legal Expenses, £7 10*s.* Purchased Postage Stamps, £2. Paid, by cheque, Stationery Account, £1 15*s.* Drew and cashed cheque for Petty Cash and Wages, £17 10*s.* Paid Wages in cash, £14.
,,	11.	Received of J. Jones the amount of his account, less 2½ per cent. Paid J. Smith the amount of his account less a discount of 2½ per cent., after taking into consideration an allowance made by him of £10 for short delivery of Goods.

All moneys received were paid at once into the Bank. Balance the Ledger accounts as on January 11, 1909; bring down the balances and extract a Trial Balance.

Note.—No Profit and Loss Account or Balance Sheet to be prepared.

Exercise II.

From the following Trial Balance, extracted from the books of J. & J. Robinson, prepare a Trading Account and a Profit and Loss

Account for the year ended December 31, 1908, and a Balance Sheet as on that date.

TRIAL BALANCE.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
James Robinson, Capital Account .				5,000	0	0
Joshua Robinson, Capital Account .				4,000	0	0
James Robinson, Drawings Account	437	10	0			
Joshua Robinson, Drawings Account	246	11	7			
Land and Buildings	2,500	0	0			
Plant and Machinery	1,426	17	7			
Furniture and Fixtures . . .	125	8	4			
Carriage	437	1	4			
Wages (Manufacturing) . . .	2,147	6	1			
Salaries	467	10	0			
Bad Debts Reserve (as on Dec. 31, 1907)				247	6	2
Sales				9,122	16	9
Sales Returns	176	2	7			
Bank Charges and Interest . .	14	4	6			
Coal, Gas and Water . . .	72	1	7			
Rates and Taxes	84	7	6			
Discount Account (balance) . .				12	7	6
Purchases	4,216	17	2			
Purchases Returns				846	2	2
Bills Receivable	127	10	0			
Trade Expenses	49	7	9			
Sundry Debtors	3,781	15	9			
Sundry Creditors				1,217	15	1
Stock (Dec. 31, 1907) . . .	2,642	14	8			
General Expenses	149	1	5			
Fire Insurance	49	15	0			
Apprentice Premium . . .				50	0	0
Cash at Bank and in hand . .	1,344	4	10			
	£20,496	7	8	£20,496	7	8

Charge Depreciation on Land and Buildings Account at $2\frac{1}{2}$ per cent., on Plant and Machinery Account at 10 per. cent., and on Furniture and Fixtures at 10 per cent. Make a reserve of 5 per cent. on the Sundry Debtors for Bad Debts. Carry forward the following unexpired amounts—

	£	*s.*	*d.*
1. Fire Insurance	12	7	2
2. Rates and Taxes	24	2	6
3. Apprentice Premiums	40	0	0

Charge 5 per cent. interest on Capital but not on Drawings. Profits and Losses are to be shared in the following proportions: James Robinson, five-ninths; Joshua Robinson, four-ninths.

The value of the Stock as on December 31, 1908, was agreed at £2,939 9*s.* 3*d.*

ROYAL SOCIETY OF ARTS EXAMINATIONS, 1909.

Stage III.—Advanced.

[3 hours allowed.]

1. In a business consisting of various departments, in what way would you keep the Stock Accounts so as to (*a*) minimize the danger of false returns by the Manager and (*b*) prevent theft on the part of dishonest employees?

2. A company having a Lease standing in their books at £5,000 decide to provide for depreciation by taking out a policy for leasehold redemption. How would you deal with the annual premiums in the books; and how would you adjust the accounts when the lease expires and the policy matures?

3. What do you understand by "Rebate on Bills discounted," and how would you treat this item when preparing the Profit and Loss Account and Balance Sheet of a Bank?

4. Jones, a trader, finding that, owing to his liabilities, he was unable to successfully carry on his business, executed a deed of assignment on June 30, 1908, in favour of his creditors, under which the creditors agreed to accept 1*s.* in the £ in full satisfaction of their debts. Brown, the largest creditor (his debt amounting to £1,000), arranged with Jones to take over the business and to pay in £300 in cash, in order to provide sufficient to pay the 1*s.* in the £ to the creditors, other than himself, and to furnish the necessary working capital for carrying on the business; and a legal agreement was, in due course, entered into between Brown and Jones whereby it was agreed that Brown should carry on the business until such time as Brown should, from profits earned, have recouped himself his old debt of £1,000 and the £300 advanced by him to Jones, together with the further sums it might be necessary for him to pay in, in order to carry on the business. Jones was to manage the business during that time at a salary of £1 10*s.* a week and 5 per cent. commission on the net profits. When the profits had reached the amount necessary to recoup Brown for his original debt and subsequent advances, it was agreed that the business should revert to Jones. The creditors on June 30, 1908, including Brown, amounted to £4,000; the debtors, who were all presumed to be good, to £500; the Stock was valued at £200 and the Furniture and Fixtures at £20. Make the Journal entries necessary for opening the new books for Brown, as on June 30, 1908. Presuming that, on December 31, 1908, Brown's books showed Creditors of £80 (not including Jones's commission for the half-year); Debtors of £700; Furniture and Fixtures, after additions and depreciation had been taken into consideration, of £25; and Cash at the Bank and in hand, £200; draw Brown's Balance Sheet as on that date, taking the Stock at a valuation of £150. It is necessary, in accordance with the terms of the Agreement for the Balance Sheet, to show the amount then due to Brown.

Exercise.

The Manufacturing Company, Ltd., has a Nominal Capital of 15,000 shares of £10 each; and a Subscribed Capital of 8,000 shares, fully paid up. It manufactures goods for sale at its two branches, A. and B., which sell no goods other than those of the Company's manufacture. From the following Trial Balance, extracted from the books of the Head Office and Branches as on December 31, 1908,

THE MANUFACTURING COMPANY, LTD.

Dr. **TRIAL BALANCE, December 31, 1908** **Cr.**

	Head Office.			Branch A.			Branch B.		
	£	s.	d.	£	s.	d.	£	s.	d.
Freehold Premises:									
Head Office	40,000	0	0						
Branch A.	10,000	0	0						
Branch B.	10,000	0	0						
Goodwill	30,000	0	0						
Plant and Machinery, Head Office	8,000	0	0						
Furniture and Fixtures:									
Head Office	500	0	0						
Branch A.	700	0	0						
Branch B.	800	0	0						
Cash at Bank	6,790	1	6						
Cash in hand	14	7	2	83	2	9	38	9	5
Stock in hand, Dec. 31, 1907	11,245	5	1	2,812	8	7	1,994	17	6
Purchases (*less* Returns)	65,090	5	11						
Wages	39,651	1	11	2,419	0	0	2,622	3	4
Salaries	1,500	0	0	247	14	4	276	6	6
Carriage to Branches	1,516	14	7						
Rates and Taxes	328	2	9	442	6	7	328	14	4
General Expenses	517	9	2	2,016	4	6	1,796	6	8
Goods from Head Office				94,167	2	3	44,267	0	2
Bad Debts				1,552	8	2	746	17	11
Sundry Debtors				9,620	2	9	5,370	3	2
Income Tax *	447	10	8						
Directors' Fees *	1,000	0	0						
Audit Fee *	105	0	0						
Branch A., Current Account	301	18	3						
Branch B., Current Account	3,353	0	8						
	£231,855	17	8	£113,360	4	11	£57,440	19	0

	Head Office.			Branch A.			Branch B.		
	£	s.	d.	£	s.	d.	£	s.	d.
Share Capital	80,000	0	0						
Sundry Creditors	11,247	18	2	541	6	6	547	12	1
Goods to Branch A.	94,167	2	3						
Goods to Branch B.	44,267	0	2						
Sales (*less* Returns)				112,517	0	2	53,540	6	3
Profit and Loss Account (balance)	2,174	2	1						
Head Office Current Account				301	18	3	3,353	0	8
	£231,855	17	8	£113,360	4	11	£57,440	19	0

* No apportionment of these items need be made.

prepare, for submission to the Directors, Trading and Profit and Loss Accounts for the Head Office and for each of the Branches for the year ended December 31, 1908, and a Balance Sheet of the Company as a whole as on that date.

Notes.—Stocks on hand valued as on December 31, 1908, were—

	£	s.	d.
Head Office	10,527	4	5
Branch A.	3,024	12	1
Branch B.	1,927	9	4

Write off the following depreciations—

Head Office Plant and Machinery	10 per cent.
Furniture and Fixtures Head Office	5 ,,
,, ,, Branch A.	5 ,,
,, Branch B.	5 ,,

Create a reserve for Bad Debts of 2½ per cent. on the Sundry Debtors. Write off £5,000 from Goodwill and carry £10,000 to Reserve. All carriage on the goods sent to the Branches is paid by the Head Office.

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS, 1907.

Elementary.

Part I. Compulsory.

The Assets and Liabilities of George Wilkes, Iron Merchant, on July 1, 1906, were—*Liabilities:* H. Jones, £456 6*s.*; W. Fletcher, £248 10*s.* 4*d.*; J. Horton, £55 7*s.* 6*d.*; Carriage, £29 8*s.* 6*d.*; Rent, £25; Capital, £1,126 13*s.* 10*d.* *Assets:* F. Hickman, £226 8*s.*; H. Sankey, £56 10*s.*; G. Frost, £429 17*s.* 8*d.*; Office Furniture and Fittings, £150; Horses and Carts, £175; Railway Wagons, £300; Stock, £525; Cash at Bank, £65; at Office, £13 10*s.* 6*d.*

His transactions were as follows—

1906.			£	s.	d.
July	1.	Paid by cheque for Carriage	29	8	6
,,	5.	Sold H. Sankey, 5 tons of Iron at £9 10*s.*	47	10	0
,,	7.	Bought of J. Horton 10 tons of Iron at £7	70	0	0
,,	10.	Received cheque from G. Frost, Discount £2 2*s.* 6*d.*	147	17	6
,,	15.	Paid H. Jones by cheque, Discount £3 5*s.*	121	15	0
,,	17.	Purchased from H. Jones, 10 tons of Iron at £6 5*s.*	62	10	0
,,	20.	Sold Horse for cash	27	10	0
,,	20.	Bought new Office Table for cash	7	12	6
,,	22.	Paid into Bank	20	0	0
,,	22.	Received cash from F. Hickman	52	10	0
,,	24.	Paid by cheque Rent for June	25	0	0
,,	25.	Received cheque from H. Sankey, Discount £1 17*s.* 6*d.*	54	12	6
,,	25.	Paid into Bank	15	0	0
,,	28.	Sold F. Hickman 15 tons of Iron at £7 10*s.*	112	10	0
,,	31.	Paid Wages by cash	27	10	0
,,	31.	Petty Cash payments	2	9	10
,,	31.	Carriage Account for month amounted to	15	10	0
,,	31.	One month's Rent due	25	0	0
,,	31.	Stock in hand value £515.			

Enter the foregoing items in the proper books; prepare a Trial Balance, and afterwards draw up a Profit and Loss Account and Balance Sheet.

Part II.

(*Four questions only are to be attempted. Answers are to be given briefly.*)

1. What do you understand by I.O.U., C.N., C.O.D., b/f?
2. Give all the meanings you know of the word "Dividend."
3. In what way, if any, does a Trial Balance differ from a Balance Sheet?
4. A Tradesman is supplied with 1 cwt. of Butter at £5 9*s.* 8*d.* per cwt. He returns 13 lbs. which he finds in a damaged condition. Make a copy of the Credit Note which he should receive.
5. Explain the meaning of "Insolvent" and "Composition."
6. If a man owes you £578 and pays a composition of 7*s.* 8*d.* in the £, how much would you lose?

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS.

Intermediate, 1907.

Part I. Compulsory.

J. Bassett is a Tobacco Merchant. On January 1, 1907, his position was as under—

Assets: Cash, £27; Bank, £1,524 8*s.* 6*d.*; Furniture and Fittings, £270; Horses and Carts, £182 10*s.*; Tobacco, £625; Cigars, £476; Cigarettes, £186; E. Dean, £165 9*s.* 3*d.*; H. Singleton, £86 9*s.* 4*d.*; H. Richardson, £109 5*s.* 7*d.*

Liabilities: Ogden & Co., £97 10*s.*; Godfrey Phillips, £176 8*s.* 8*d.*; Wills & Co., £620; Smith Bros., £380 7*s.* 6*d.*; John Cotton, £59 10*s.*; Capital, £2,318 6*s.* 6*d.*

1907.			£	s.	d.
Jan.	1.	Sold E. Dean, Tobacco, £18 5*s.* 8*d.*; Cigars	46	7	0
,,	1.	Paid cash for Typewriter	19	10	0
,,	3.	Bought of Ogden & Co., Tobacco, £45 10*s.*; Cigarettes	22	6	0
,,	4.	Paid Wills & Co., cheque on account; Discount, £10 12*s.* 6*d.*	320	7	6
,,	4.	Received cheque from E. Dean; Discount, £2 12*s.* 8*d.*	105	0	0
,,	6.	Withdrew from Bank for personal expenses	22	10	0
,,	8.	Invoiced H. Richardson, Cigars, £17 7*s.*; Cigarettes	9	12	6
,,	8.	Endorsed E. Dean's cheque and sent it to Smith Bros.	105	0	0
,,	9.	Paid Fire Insurance Premium in cash	3	10	0
,,	11.	Purchased from John Cotton, Tobacco	48	11	6
,,	12.	Received cheque from H. Singleton on account	47	10	0
,,	12.	Sold Cigars for cash	25	6	0
,,	16.	Sold to H. Richardson, Tobacco, £62 10*s.*; Cigars	36	10	6
,,	18.	Singleton's cheque returned by Bank dishonoured	47	10	0

1907.			£	s.	d.
Jan.	18.	Returned to John Cotton Tobacco damaged .	5	6	0
,,	19.	Paid for Painting Premises, cheque . .	18	6	0
,,	22.	Paid cash into Bank	10	0	0
,,	22.	Bought from Wills & Co., Tobacco, £78 10s ; Cigars	15	10	0
,,	22.	Bought from Wills & Co., Cigarettes . .	42	5	0
,,	31.	Paid Wages by cash	15	0	0
,,	31.	Paid Rent by cheque	15	0	0
,,	31.	Charge depreciation on Furniture and Fittings	6	5	0
,,	31.	,, ,, Horses and Carts .	10	10	0
,,	31.	Value of Stock: Tobacco, £632 10s.; Cigars, £488; Cigarettes, £212.			

Enter the above items in the proper books and prepare a Trial Balance, and afterwards draw up a Profit and Loss Account and Balance Sheet.

Part II.

(*Five questions only are to be attempted. Answers are to be given briefly.*)

1. In what way does the use of a Purchases Book reduce the labour in Book-keeping?
2. G. Lane owes £84 and pays a composition of 8s. in the £. How would you record this transaction in the Journal?
3. What do you understand by "Turnover" (1) as applied to a Trade, and (2) in Banking?
4. What is the meaning of the letters E. E., or E. and O. E. at the foot of an Invoice?
5. What do you understand by "Demurrage," "Drawings"?
6. What is meant by a Deed of Arrangement? On which Creditors is it not binding?
7. What do you understand by "Goodwill"? What is a fair price for the goodwill of a business?

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS.

Advanced, 1907.

Part I. Compulsory.

H. Shepherd and G. Elkington entered into co-partnership as Builders and Contractors at Northampton on January 1, 1906. Elkington's capital was £1,000, Shepherd's was £4,000. Profits or losses were to be shared equally, 5 per cent. was to be credited to each Partner in respect of his capital, and 5 per cent. was to be charged on their respective drawings. Elkington was to be credited with £25 each quarter as salary for management. The following is a copy of the Trial Balance of their books on December 31, 1906, but no interest has been charged either upon the capital or upon drawings, nor had Elkington been credited with his salary.

The Stock was taken and amounted to £3,750. The drawings of the partners had been as follows: Shepherd, February 1, £50; April 1, £100; June 1, £50; August 1, £50; October 1, £100; December 1, £50. Elkington, February 1, £25; March 1, £37 10s.; May 1, £62 10s.; June 1, £50; August 1, £25; September 1, £37 10s.; November 1, £62 10s.; December 1, £50.

	£ s. d.	£ s. d.
Sales		9,756 10 7
Purchases	3,857 6 6	
Cash	365 2 11	
Bills Payable		421 3 4
Creditors		1,062 7 1
Rents	525 7 6	
Bank		664 19 9
Taxes and Insurance	224 12 6	
General Charges	108 2 2	
Buildings	2,500 0 0	
Shepherd's Capital		4,000 0 0
Elkington's Capital		1,000 0 0
Interest and Discount	250 3 7	
Salaries	457 10 0	
Wages	1,304 2 6	
Carriage and Freight	255 4 7	
Repairs and Depreciation	212 5 7	
Plant and Tools	1,437 14 5	
Shepherd's Drawings	400 0 0	
Elkington's Drawings	350 0 0	
Debtors	4,657 8 6	
	£16,905 0 9	£16,905 0 9

Prepare a Trading Account, Profit and Loss Account, and Balance Sheet, giving effect to the respective partnership terms as to Interest on Capital and Drawings, Partners' Salary, and division of Profits and Losses.

Part II.

(*Five questions only are to be attempted. Answers are to be given briefly.*)

1. Give the primary divisions into which Ledger Accounts are divided, when it is impossible to keep all the accounts in one Ledger.
2. State the meaning of the following as applied to a Company: "Limited," "Unlimited," "Private," "Public."
3. Define shortly: "Sinking Fund," "Reserve Fund."
4. Make out a Bill for £200 drawn on December 6, 1906, by Hirons & Co., of Leicester, upon A. Jones, of Nottingham, and accepted by him.
5. What are the essential points in drafting a B/E?
6. What do you understand by the following: "Underwriter," "Trustee," "Surety," "Proxy"?
7. Give the meaning of "Copyright." State the minimum and maximum duration of a Copyright, and also how it is registered.

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS.

Elementary, 1908.

Part I. Compulsory.

On September 1 Messrs. Carter & Co.'s position was as follows—
Cash in hand, £750; Cash at Bank, £1,100; Bills Receivable: Adams & Co., £215; Cope & Co., £360; Coal on hand, 1,500 tons at 15*s.*, £1,125; Coke on hand, 900 chaldrons at 10*s.*, £450; they owed

the Gas Company £375 10*s.*; Rainsford & Co., £284 5*s.*; and Smith & Co., £340 5*s.*

The following were their transactions for the month—

			£	s.	d.
Sept.	3.	Purchased from Smith & Co. Gravel, 185 loads, at 7*s.*	64	15	0
,,	4.	Forwarded to Smith & Co. (acceptance payable in 10 days)	64	15	0
,,	5.	Adams's Bill paid at Bank	215	0	0
,,	6.	Forwarded to Adams & Co., Coals, 360 tons, at 18*s.*	324	0	0
,,	8.	Forwarded to Gas Co., cheque	150	0	0
,,	11.	Sold to Burchell, G., Coals, 240 tons, at 17*s.* 6*d.*	210	0	0
,,	11.	Sold to Burchell, G., Coke, 144 chaldrons, at 12*s.* 6*d.*	90	0	0
,,	11.	Sold to Burchell, G., Gravel, 36 loads, at 10*s.*	18	0	0
,,	12.	Received from Burchell, G., cheque, and paid same into Bank	180	0	0
,,	15.	Sold to Adams & Co., Coal, 160 tons, at 18*s.*	144	0	0
,,	15.	Sold to Cope & Co., Coal, 72 tons, at 18*s.*	64	16	0
,,	15.	Sold to Burchell, G., Coal, 36 tons, at 18*s.*	32	8	0
,,	17.	Bank honour acceptance	64	15	0
,,	17.	Adams & Co., paid cash for Goods—Discount, £3 12*s.* 6*d.*	140	7	6
,,	20.	Paid to Bank	137	7	6
,,	20.	Purchased Coal from Rainsford & Co., 820 tons, at 16*s.*	656	0	0
,,	20.	Purchased Coal from Smith & Co., 120 tons, at 17*s.* 6*d.*	105	0	0
,,	20.	Purchased Coke from Gas Co., 64 chaldrons, at 12*s.*	38	8	0
,,	20.	Purchased Gravel from Smith & Co., 24 loads, at 6*s.*	7	4	0
,,	20.	Paid Rainsford by cheque for Goods—Discount, £16	640	0	0
,,	22.	Gave Smithson Acceptance for 1 month, £340, and cash	7	4	0
,,	23.	Sold Cope & Co., Coal, 180 tons, at 19*s.*	171	0	0
,,	23.	Sold Cope & Co., Coke, 140 chaldrons, at 15*s.* 6*d.*	87	10	0
,,	23.	Sold Cope & Co., Gravel, 42 loads, at 7*s.* 6*d.*	15	15	0
,,	30.	Cash paid for Salaries and Expenses	136	15	10
,,	30.	Cope & Co. settle their account by paying cash	330	0	0

Coal on hand on September 30, £1,401 12*s.*; Coke on hand, £358; Gravel on hand, £45 17*s.*

Post the above transactions into the proper books of account, take out a Trial Balance, and prepare a Profit and Loss Account and Balance Sheet on September 30.

Part II.

(*Four questions only are to be attempted. Answers are to be given briefly.*)

1. Define Capital, and show clearly how I could have £1,000 Capital, and at the same time only £1 cash.

2. What do you do with each of the following balances—Balance of Profit and Loss Account; Capital Account; Trade Expenses; Goods Account; Discount Account?

3. Explain clearly the terms—Acceptance, Promissory Note, Draft, Assets and Liabilities.

4. Rule a form of Sales Day Book, suitable for a manufacturer who makes three distinct classes of articles, and give three specimen entries.

5. What do you understand by B/R, B/P, Days of Grace? What is meant by Discounting a Bill?

6. Write out a Silk Mercer's Invoice for Goods Sold, amounting to more than £100, and give the form of a Bill at 3 months date, drawn by the mercer on his customer for the amount.

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS.

Intermediate, 1908.

Part I. Compulsory.

Work out from the following items and draw up therefrom a Balance Sheet and Capital Account on January 1, 1902, and a Trial Balance, Profit and Loss Account, and Balance Sheet on December 31, 1902.

A trader was possessed of the following Assets on January 1, 1902—Cash at Bankers, £2,150; Cash on Deposit, £5,000; Debts due from Sundry Customers, £7,600; Stock-in-trade, £8,000; Consignments abroad, £3,250; Bills Receivable in hand, £6,925; Investments in Consols, £10,000, valued at 95 per cent.; Leasehold Warehouse and Offices, £1,500.

At the same date he had the following liabilities, viz.—To Sundry Creditors, £13,700; on Bills Payable, £14,000; on Loan Account, £5,000.

During the year he had business transactions, of which the following is a summary—

	£
Goods purchased	138,000
Goods sold to Customers	154,000
Goods returned to Manufacturers	2,375
Goods returned by Customers	1,824
Bills Payable accepted for Goods purchased of Manufacturers	104,000
Bills Payable paid	97,500
Bills Receivable received from Customers for Goods sold	123,000
Bills Receivable discounted by Bankers	118,000
Discount charged on Bills Receivable discounted by Bankers	1,180
Wages and Salaries, and Rent, Rates, and Taxes paid	5,284
Depreciation in value of Stock of Goods by fire, after deducting the Insurance Money received	1,600
Abatement and Allowances made to Customers on Goods purchased by them	770
Drawings out of Business for private purposes	2,500
Loans repaid	4,000
Cash received from Customers	12,000
Interest paid on Loans £250, less Interest received on Deposit £150	100

	£
Cash paid to Manufacturers for Goods purchased . .	21,000
Losses on Consignments	375
Cash remitted by Consignees	1,500
Interest received on Consols	260

Stock-in-trade on December 31, 1902, is £7,500, and Consols are valued on that date at £90 per cent., depreciate Leasehold Premises at 3 per cent., and charge interest on Capital at 5 per cent.

Part II.

(*Five questions only are to be attempted. Answers are to be given briefly.*)

1. What errors are likely to remain undiscovered in a Trial Balance which agrees in total?

2. Show how to post the following into the Ledger, and explain the words in italics—

   Jan. 1. *Accepted* T. Smith's *draft* on me for £100 payable in 3 months.

   Feb. 1. *Discounted* A. Jones's *acceptance* for £500 due March 15 and received cash £497 5*s*.

3. What do you understand by the following terms—Lien, Liquidation, Lloyds, *pro formâ* Invoice, and Bankers' Draft?

4. Give the rulings of an analyzed Purchase Day Book of a manufacturer, and make a few specimen entries.

5. What do you understand by "crossing a cheque"? Explain the different kinds of crossings, and state the effect of such crossings.

6. What is Interest on Capital, and why is it charged?

7. Explain as clearly as you can why it is that the total of the Dr. Entries of a set of books kept on the Double Entry System agrees with the total of the Cr. Entries.

MIDLAND COUNTIES UNION OF EDUCATIONAL INSTITUTIONS.

ADVANCED, 1908.

Part I. Compulsory.

Prepare Trading and Profit and Loss Accounts and Balance Sheet of the Yorkshire Tweed Co., Ltd. Nominal Capital £10,000, divided into 5,000 6 per cent. Preference Shares of £1 each, and 5,000 Ordinary Shares of £1 each. On December 31, 1906, the position was as follows—Stock, £3,699 19*s*. 7*d*.; Depreciation: Machinery, 7½ per cent. per annum; Engines, Boilers, and Shafting, 10 per cent. per annum; Cards, Bobbins, Shuttles, etc., 25 per cent. per annum; Additions to be depreciated for half-a-year. Reserve 3 per cent. of Debtors' Balances for Discount and £200 for Bad Debts. Reserve 5 per cent. of Creditors' Balances for Discount. Take into account the following—The Rent of Telephone, £10, has been charged on Trade Expenses Account, and paid for year ending September 30, 1907. Fire Insurance for £8,000, at a premium of 10*s*. per cent., expires Midsummer, 1907. District Rate for half-year ending March 31, 1907, is not yet paid or entered in the books, the year's rate being £20. Preference Dividend is paid to June 30, 1906. Managing Director is entitled to 10 per cent. bonus on the net profit for the year (after charging Debenture Interest).

	£	s.	d.		£	s.	d.
Machinery, Jan. 1, 1906	4,000	0	0	3,000 Preference Shares	3,000	0	0
Machinery additions during year	200	0	0	4,119 Ordinary Shares	4,119	0	0
Freehold Mill	3,000	0	0	Debentures	2,000	0	0
Engines, Boilers, and Shafting Account, Jan. 1, 1906	500	0	0	Sales	32,106	14	5
Cards, Bobbins, Shuttles, Working Utensils, Jan. 1, 1906	900	0	0	Purchase Ledger Balances	4,810	9	10
Additions during the year	300	0	0	Bad Debt Reserve	116	9	3
Materials	18,469	15	7	Bills Payable	2,220	0	0
Dyeing and Finishing	1,216	3	6	Bank	988	6	5
Carriage	533	1	10	Discount on Purchases	371	9	9
Trade Expenses	195	12	4				
Motive Power	691	7	8				
Wages—Mill	8,437	16	9				
Wages — Mechanics, etc.	142	1	9				
Rates, Gas, and Insurance	203	9	6				
P. and L. Account, Jan. 1, 1906	20	11	2				
Repairs Account	176	14	2				
Debenture Interest to June 30	40	0	0				
Stock, Jan. 1, 1906	3,519	4	6				
Dividend	90	0	0				
Commission	519	11	8				
Bank Charges	32	11	1				
Sales Ledger Balances	6,000	0	9				
Discount on Sales	511	15	8				
Cash Book Balance	32	11	9				
	£49,732	9	8		£49,732	9	8

Part II.

(*Five questions only are to be attempted. Answers are to be given briefly.*)

1. Explain fully what you understand by Self-balancing Ledgers.

2. What is the Statute of Limitations?

3. Explain the meaning of Preference, Guaranteed, Ordinary, and Deferred Shares, and Debentures.

4. What is meant by "Average" in relation to Insurance? Distinguish between "general" and "particular" average in Marine Insurance.

5. Explain the following terms—F.O.R., F.A.S., B/L, D/W, E. and O. E.

6. Give the rulings of a Bills Receivable Book and make two specimen entries.

7. Give a list of the allowances from Income Tax to which a trader is entitled who is returning his profits under Schedule D Also state what expenses usually charged to a trader's Profit and Loss Account will not be allowed by the Income Tax Commissioners.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

Book-keeping and Accountancy.

FIRST STAGE, 1907.

[3 hours allowed.]

1. On March 1, 1907, Robert Kelly commences business with £600 at credit of his account at the County Bank; his transactions are—

			£	s.	d.
Mar.	1.	Bought Goods from H. J. Jowett & Co.	158	10	6
,,	2.	Paid cash for Advertisements	5	0	0
,,	2.	Drew cheque for Petty Cashier (to be accounted for), £10, and Office Cash, £40.			
,,	2.	Received from Lidgett & Sons a Horse, Cart and Harness worth £35 in exchange for Goods £20 and Cash £15.			
,,	4	Sold Goods to J. & R. Campbell	53	6	8
,,	5.	Drew cheque for Warehouse Furniture	120	0	0
,,	5.	Bought Goods from Lidgett & Sons	326	19	0
,,	7.	Paid cash for Travelling Expenses	8	10	0
,,	7.	Received from J. & R. Campbell, cash, £52; allowed Discount, £1 6s. 8d.			
,,	9.	Paid Wages	12	10	0
,,	11.	Bought Goods from H. J. Jowett & Co.	36	14	9
,,	12.	Paid Lidgett & Sons by cheque £320; Discount, £6 19s.			
,,	12.	Bought Goods for cash	85	0	0
,,	12.	Drew out of Bank for Office Cash	70	0	0
,,	13.	Sold Goods to J. & R. Campbell	24	15	8
,,	14.	Paid cash for Telephone Rental	4	5	0
,,	16.	J. & R. Campbell pay amount owing by them less £1 4s. 8d. Discount.			
,,	16.	Paid Wages	16	0	0
,,	16.	Two weeks' Cash Sales	203	16	5
,,	18.	Paid to Bank out of cash	180	0	0
,,	19.	Paid for Warehouse Cleaning	4	15	0
,,	19.	Sold Goods to Lidgett & Sons	16	14	9
,,	20.	Paid cheque to H. J. Jowett & Co., £185 10s.; Discount, £9 15s. 3d.			
,,	22.	Bought Goods from H. J. Jowett & Co.	65	3	8
,,	23.	Paid Wages	20	0	0
,,	27.	Bought Goods from H. J. Jowett & Co.	45	11	3
,,	27.	Sold Goods to Lidgett & Sons	19	13	3
,,	30.	Paid Wages	20	0	0
,,	30.	Cash Sales for two weeks	298	6	5
,,	30.	Cheque drawn for Petty Cashier's payments for month, £8, viz. Goods, £2 5s.; Trade Expenses £5 15s.			
,,	30.	Robert Kelly takes cash for private use	50	0	0
,,	30.	Paid to Bank out of cash	250	0	0

Enter up in the proper books, and prepare Trial Balance, March 30, 1907.

2. Describe fully the process of balancing the Cash Book and Bank Account. When should this be done, and how often should the Cash be counted?

3. A. buys from B. goods £51 18*s.* 7*d.* on January 3, 1907. At the end of February A. discovers that B. has charged (in this item) for 10½ yards Cloth at 3*s.* 8*d.* per yard, when the price should have been 3*s.* 2*d.* per yard; and on February 14 A. sends back to B. one piece of Worsted, 72 yards, at 4*s.* 8*d.* per yard, as being of wrong shade; this is part of the Goods bought on January 3 as above. Give the proper entries which A. should make in his books relating to these transactions.

4. Explain the Ledger Index; state how it may be specially arranged for speedy reference when the Ledger contains a very large number of accounts.

5. What are Vouchers? Describe a good system of arranging them.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

Second Stage, 1907.

[3 hours allowed.]

You are provided with paper ruled for the following books—

Journal,	Cash Book,
Sales Day Book,	Sales Ledger,
Returns Inwards Book,	Bought Ledger,
Purchases Day Book,	Impersonal Ledger,
Returns Outwards Book,	Private Ledger.

Open the books of William Barker, Manufacturer, on March 1, 1907, in accordance with the following particulars—

	£	*s.*	*d.*
Due to Bank	69	14	8
Stock	495	1	2
Machinery	880	0	0
Motor Delivery Van	250	0	0
Due from Ward & Sons	108	9	6
Due to Jas. Arnold	44	3	9
Bill Payable (Fryston & Co.)	65	0	0
A. Jones owes a disputed debt estimated to realize	3	0	0

You are required to record the transactions for the month of March from the information given below, and to close the books at the end of the month, showing Profit and Loss Account and Balance Sheet.

The Invoices sent out for Goods sold were—

Mar. 5. Ward & Sons, 69, Wall Street, Wilton, 10 gross Mixed Fancies at 23*s.* 6*d.* per dozen; 54 dozen Best White Fancies at 25*s.* per dozen; per own van.

,, 24. Briggs & Co., Ltd., 32, City Court, Crompton, 210 dozen Double Fancies at 36*s.* 6*d.* per dozen; 4 only Blue Fancies at 44*s.* 6*d.* per dozen; Packing-case, 5*s.*; per G.N.R., carriage forward.

The Credit Notes sent out were—

Mar. 8. Ward & Sons, overcharge on 54 dozen Best White Fancies at 2*s.* 6*d.* per dozen.

,, 27. Briggs & Co., Ltd., 1 Packing-case returned, 5*s.*

The Purchases were—

Mar. 9. Jas. Arnold, Raw Material, £124 9*s.* 1*d.*

,, 14. The Well Stores, Ltd., Coal, £10 11*s.* 8*d.*; Machinery Repairs, £12 14*s.* 6*d.*; Patent Stoking Apparatus, £55.

,, 23. The Well Stores, Ltd., Extra Tyre for Motor Van, £5 5*s.*; Repairing Motor Van, £8 19*s.* 3*d.*; Packing-cases, £4 2*s.* 9*d.*; Coal, £9 1*s.* 6*d.*; Petrol for Motor Van, £6 11*s.* 6*d.*; Machinery Oil, £5 10*s.*

Credit Notes received were—

Mar. 12. Jas. Arnold, Raw Material returned, £10 7*s.* 1*d.*

,, 16. The Well Stores, Ltd., for Old Furnace Bars, £6 9*s.* 6*d.*

All cash received is paid to Bank weekly on Saturdays, March 9, 16, 23, 30.

The Receipt Book Counterfoils were—

Mar. 4. Ward & Sons, cheque (dated March 12), £53 1*s.*; Cash, £50; Discount, £5 8*s.* 6*d.*

Note.—Ward & Sons' cheque was returned by the Bank on March 14 "dishonoured." Acting on Ward & Sons' instructions it was paid into Bank again on March 23.

Mar. 16. Lewis & Co., Solicitors, £5 18*s.* 6*d.*, being amount recovered from A. Jones, £7 10*s.* (*less* Law Charges, £1 11*s.* 6*d.*), for disputed claim.

,, 28. Briggs & Co., Ltd., cheque on account, £200.

,, 29. Hopkinson & Co., 2 Packing-cases, cash sale, 15*s.*

,, 30. The Well Stores, Ltd., hire of Motor Van 3 days at 2 guineas, £6 6*s.*

The Cheque Book Counterfoils were—

Mar. 7. Self, Wages, £45 3*s.* 2*d.*; Petty Cash, £2 16*s.* 10*d.*; Private, £5.

,, 8. Jas. Arnold, £41 19*s.* 7*d.*, in settlement of account to date.

,, 14. Self, Wages, £51 9*s.* 6*d.*; Petty Cash, £3 10*s.* 6*d.*; Private, £5.

,, 22. The Well Stores, Ltd., £68 4*s.*; Discount, £3 11*s.* 10*d.*

,, 23. Self, Wages, £41 3*s.* 9*d.*; Petty Cash, £3 16*s.* 3*d.*; Private, £5.

,, 26. *Note.*—Fryston & Co.'s Bill due this day paid by the Bank.

,, 28. Self, Wages, £47 6*s.* 8*d.*; Petty Cash, £2 13*s.* 4*d.*; Private, £5.

,, 30. J. B. Richardson, 1 month's Rent, £8 13*s.* 4*d.*

On examining the Bank Pass Book on March 30 it is found that the cheque on the 22nd inst. for the Well Stores, Ltd., is entered £68 4*s.* 10*d.*, and the receipt also shows this amount. J. B. Richardson's cheque has not yet been presented at the Bank.

The Petty Cash Book shows a balance in hand of £1 3*s.* 6*d.* at the end of the month, the remainder has been paid away in Sundry Expenses.

On comparing the Stock at the end of March, it is found that the Stock List at March 1, 1907, had been over-added £50.

Stock, March 30, 1907, Goods, £365 14*s.* 3*d.* and extra tyre at half cost.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

Third Stage, 1907.

[3 hours allowed.]

1. Phillips & Thomas, Ltd.

Trial Balance, *December* 31, 1906.

	£	s.	d.	£	s.	d.
Goodwill	5,000	0	0			
Trade Expenses	246	5	4			
Freehold Estate (Factory), Dec. 31, 1905	5,800	0	0			
Models	150	0	0			
Rent received (House), half year to June 30, 1906				10	0	0
Coal and Coke	768	4	9			
Salaries	942	15	3			
Additions to Plant during year .	240	0	0			
Bank Interest				24	5	6
Bad Debts	189	5	3			
Legal Expenses	17	9	5			
Petty Cash Book	120	6	6			
Loan on Mortgage, 4 per cent. .				4,000	0	0
Dwelling-house	400	0	0			
Sales Ledger balances	6,091	5	4			
Purchases.	37,960	3	7			
Rates and Taxes	146	5	4			
14,000 £1 Ordinary Shares . .				14,000	0	0
Engine and Boiler	560	0	0			
Stock, Dec. 31, 1905	8,215	5	4			
Travelling Expenses.	218	4	3			
Repairs	158	4	11			
Returns Outwards				85	14	9
Discount allowed	2,035	4	2			
Preference Dividend to June 30, 1906	240	0	0			
Insurance.	76	9	8			
Bank, Current Account . . .	944	0	9			
Horses, Carts and Harness . .	229	10	0			
Subscriptions and Donations . .	63	4	9			
8,000 £1 6 per cent. Preference Shares				8,000	0	0
Extension to Premises (Factory) .	240	0	0			
Bank Deposit Receipt dated June 30, 1906, at 3 per cent.	500	0	0			
Horse-keep and Cartage . . .	346	5	7			
Machinery and Plant, Dec. 31, 1905	2,164	0	0			
Mortgage Interest to June 30, 1906.	80	0	0			
Discount received				842	5	4
Cash	89	6	4			
Bought Ledger balances . . .				2,481	10	3
Returns and Allowances . . .	166	8	4			
Wages	5,878	2	7			
Bills Receivable	985	8	2			
Bank Commission	52	5	7			
Sales				51,870	5	4
	£81,314	1	2	£81,314	1	2

The Petty Cash item, £120 6*s.* 6*d.*, as per Trial Balance represents the following payments—

	£	s.	d.	£	s.	d.
Goods bought	33	9	2			
Repairs	27	18	5			
Horse-keep	15	5	7			
Travelling	24	15	2			
Sundry Expenses	14	3	7			
				115	11	11
and the Petty Cash in hand, Dec. 31, 1906, is				4	14	7
				£120	6	6

At December 31, 1906, the Stock is, Goods, £7,346 15*s.* 7*d.*; Coal, £56.

Rates are prepaid, £15. Half-year's Rent of House, £10, is due. The Interest on Bank Deposit Receipt has accrued but is not credited to the Company in their current banking account. Accounts for Extensions to Premises are owing, £200. Of the Debtors, £346 is estimated to be bad. A Bill Receivable in hand, £150, is known to be bad. Depreciation is 1 per cent. on Freehold, 10 per cent. on Engine and Boiler, 5 per cent. on Machinery and Plant, and it is decided to write off one-fourth of the Extensions Account, and to treat the Models as being worth £200. Sales Ledger Balances include £300 Smith Bros., who are creditors in the Bought Ledger for £250. Reserve 5 per cent. discount on the good debts.

Prepare Profit and Loss Account, and Balance Sheet, December 31, 1906.

2. An Engineer's books give the following figures: for the year 1906, Materials purchased, £17,500; Sales, £30,000; Wages, £7,500; and Expenses, £2,000. The Stocks at the beginning of the year were: Materials, £6,000; Finished Work, £4,000; and at the end of the year they were: Materials £5,000, and Finished Work, £3,000. For the year 1907, the Materials purchased were: £14,000, Wages, £4,800, Expenses, £1,200, and Sales, £17,000. The Stock at the end of 1907 is Materials, £7,000, and Finished Work, £6,000. Prepare a statement showing each year (and also the average of the two years) what are the percentages of Cost of Materials, Wages, Expenses, and Profit on the output.

3. Arthur Beresford borrows £10,000 from the Building Society on January 1, 1907, and repays £800 per annum by half-yearly instalments in discharge of the Principal and Interest. Calculating interest half-yearly at 4 per cent. per annum, prepare an account in A. B.'s Ledger showing the position up to January 1, 1910.

4. A Firm's books are made up half-yearly, and many items have been included under the heading of General Trade Expenses. The Firm have a quantity of Materials for Repairs, and also a stock of Catalogues and printed matter. It is desired to know in future what is the separate cost, each half-year, of Horse-keep, Repairs, Advertising, and Office Expenses. Explain in detail how the necessary alteration in the system is to be properly effected.

5. Arthur Dent and Wm. Fenn are partners. The Capital at March 30, 1907, is Dent, £4,634 15*s.*; Fenn, £3,391 11*s.* In their Balance Sheet is a Freehold Property, £1,860, which it is agreed that Dent shall take over from the partnership at April 1, 1907, at the value of £2,000. The partners then wish to make their

respective Capitals in the business equal, and in order to do this Dent on April 1 pays £100 into the Firm's banking account, and also gives to Fenn by cheque on his own (Dent's) Bank for the sum required to make the Capital of the two partners equal. Write out the two partners' accounts in the Firm's Ledger showing the transactions.

6. Criticize the following—

SHORT BROS., LTD. BALANCE SHEET, *December* 31, 1906.

	£	s.	d.		£	s.	d.
To Debentures .	1,000	0	0	By Freehold, Machinery and Plant, as at Jan. 1, 1903 .	1,700	0	0
,, Fifty £10 Preference Shares .	500	0	0	,, Sales Ledger balances, less Bought Ledger balances . .	300	0	0
,, Reserve Fund .	200	0	0	,, Stock at sale price . .	300	0	0
,, Cash . .	10	0	0	,, 5 Shares unpaid	50	0	0
,, W. Short's Exors. Loan .	750	0	0	,, Bill Receivable due Nov. 20, 1905 . .	2	10	0
				,, W. Short's Exors. Int. paid for 1907 .	17	10	0
				,, Profit and Loss Account . .	100	0	0
	£2,460	0	0		£2,460	0	0

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

FIRST STAGE, 1908.

[3 hours allowed.]

1. Samuel Mason has cash £100 on January 1, 1908; he buys the business of Argyle Bros. (see below) and opens an account at the Bank by paying in £80. His transactions are—

			£	s.	d.
Jan.	1.	Bought Stock from Argyle Bros.	80	0	0
,,	1.	Bought Fixtures from Argyle Bros. . .	23	0	0
,,	2.	Drew cheque Argyle Bros. on account . .	75	0	0
,,	3.	Sold Goods to Bartrum & Co.	15	0	0
,,	4.	Paid Wages	3	6	0
,,	4.	Cash takings, 1st to 4th	12	15	9
,,	6.	Paid deposit to Gas Company	2	0	0
,,	7.	Sold Goods to Chas. Cranford	3	9	0
,,	9.	Bought Goods from D. Dewar & Sons . .	36	5	8
,,	11.	Cash takings, 6th to 11th	14	8	6
,,	11.	Paid Argyle Bros. cheque £10 and cash £5 .	15	0	0
,,	11.	Sold Goods to Argyle Bros.	4	16	8
,,	11.	Paid Wages	3	12	0

			£	s.	d.
Jan.	13.	Received cheque from Bartrum & Co. and paid to Bank	14	10	0
,,	13.	Allowed Discount to Bartrum & Co.	0	10	0
,,	14.	C. Cranford returns Goods	1	19	0
,,	15.	Paid to Bank out of cash	15	0	0
,,	16.	S. Mason withdraws cash for self	5	0	0
,,	18.	Cash takings, 13th to 18th	16	10	5
,,	18.	Bought Hand-cart for cash	3	0	0
,,	18.	Paid Wages	3	12	0
,,	20.	Paid for Hand-bills, printing and distribution	1	10	0
,,	21.	Drew cheque for D. Dewar & Sons £35; Discount, £1 5*s.* 8*d.*			
,,	21.	Paid £16 to Bank out of cash.			
,,	22.	Sold to Eversley & Co., Goods £16 8*s.* 9*d.* and Hand-cart £3 10*s.*			
,,	24.	Bought Goods from Ford & Son	20	19	3
,,	25.	Cash takings, 20th to 25th	17	9	8
,,	25.	Bought New Counter for cash	3	6	0
,,	25.	Paid Wages	3	12	0
,,	27.	Received from Eversley & Co. £19 18*s.*; Discount, 9*d.*			
,,	28.	Paid Ford & Son cash on account	18	0	0
,,	29.	Paid Argyle Bros. cash £3, cheque £5; Discount, 3*s.* 4*d.*			
,,	30.	Sold goods to Argyle Bros.	8	12	6
,,	31.	Sold goods to Bartrum & Co.	25	9	2
,,	31.	Cash takings, 29th to 31st	18	12	5
,,	31.	Bought Goods from Ford & Son	16	14	9

Enter up in the proper books and prepare Trial Balance, January 31, 1908.

2. If the following questions were put to you by a Merchant in his office where the books are kept on the Double Entry System, how would you proceed to find the information required?

(*a*) What was the price of an article purchased by me from Asquith & Sons in the early part of last year?
(*b*) How much do Halliday & Co. owe me to-day?
(*c*) How much money is there in the Bank now?
(*d*) What are the total Sales from January 1, 1908, up to to-day?

3. What entries would you make in your books to record the following transactions?

(*a*) James Wing, wishing to make a remittance and having no Banking Account of his own, gives you £10 in gold for which you give him a cheque on your Banking Account for £10.
(*b*) Cashed a cheque for £5 for James Wing.
(*c*) Sent James Wing £20 worth of Goods on appro.
(*d*) James Wing returns Goods sent on appro. to the value of £14, keeping £6 worth.

4. The Petty Cash Book is kept on the Imprest System, and has analysis columns for "Goods," "Sundry Expenses," "Carriage," "Stationery and Postage," and "Travelling Expenses."

Enter up in the Petty Cash Book the following payments for March 1908—2nd. Window cleaner, 2*s.* 6*d.* 4th. Stamps, £1. 5th. Car Fares, 4½*d.* 6th. Caretaker, 5*s.* 9th. Large Envelopes, 1*s.* 10th.

Expenses to Manchester, 7s. 3d. 11th. Newspapers, 3s.; Copy Letter Book, 7s. 6d. 13th. Telephone Trunk Calls for February, 5s. 9d. 17th. Telegram, 9½d. 20th. Railway Guide, 1d. 21st. Stamps, 10s.; Goods, 6s. 11d. 23rd. Great Northern Railway Account, 15s. 6d. 24th. Firewood, 3s. 25th. Car Fares, 7d. 26th. Carrier, 2s. 2d. 27th. Expenses to Liverpool, 10s. 5d. 28th. Advertisement for Clerk, 1s. 6d. 30th. Bottle of Ink, 2s. 6d.; Goods, 14s. 9d. 31st. Parcel Express Co., 11s. 9d.

The Petty Cashier keeps a float of £10 and is re-imbursed on April 1 by cheque for his payments during March. What records should be made of—

(*a*) The float;
(*b*) The cheque for payments during March;
(*c*) The Petty Cash Book totals for March?

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

SECOND STAGE, 1908.

[3 hours allowed.]

You are provided with paper ruled for the following books—

Journal,	Cash Book,
Sales Day Book,	Sales Ledger,
Returns Inwards Book,	Bought Ledger,
Purchases Day Book,	Impersonal Ledger,
Returns Outwards Book,	Private Ledger.

The following Trial Balance is taken from the books of Messrs. Carr & Willis after they were closed on December 31, 1907. Re-open the books in accordance therewith.

	£	*s.*	*d.*	£	*s.*	*d.*
William Carr, Capital Account				1,024	0	3
James Willis, Capital Account				310	1	3
Fixtures Account	250	0	0			
Trading Account, Stock	860	15	0			
Advertising Account, Stock	15	10	0			
Bad Debts Account, Reserve				10	0	0
Cash Book, Bank Balance	144	19	3			
Sales Ledger balances—						
Rush & Co., Ltd. (*Note*—terms, 5 per cent. for monthly settlement on the 10th)	68	11	2			
Sykes, Ltd.	33	9	5			
Bills Receivable Account	29	0	0			
Bought Ledger balance—						
Rush & Co., Ltd. (*Note*—terms, 5 per cent. for monthly settlement on the 10th)				58	3	4
	£1,402	4	10	£1,402	4	10

You are required to record the transactions for the month of January from the information given below, and to close the books at the end of the month, showing Trading Account and Balance Sheet.

The Invoices sent out for Goods sold were—

			£	s.	d.
Jan.	3.	Sykes, Ltd., Lightown, 85 yds. "Frictionless" Belting at 3s. 9d. per yd.; 9 doz. and 4 Patent Laces at 13s. per doz.; per N.E.R., carriage paid	22	0	1
,,	8.	Rush & Co., Ltd., Broadfoot, 370 yds. "Powerful" Strapping at 2s. 8d. per yd.; per their cart	49	6	8
,,	25.	Sykes, Ltd., Lightown, 3 cwt. 2 qrs. 8 lbs. Rimmed Sheets at 1s. 2½d. per lb.; 4 Double Fretwork Chains at 25s. each; per N.E.R., carriage paid	29	3	4
,,	27.	Rush & Co., Ltd., Broadfoot, 1,130 yds. "Powerful" Strapping at 2s. 6d. per yd.; per their cart	141	5	0

The Credit Notes sent out were—

			£	s.	d.
Jan.	6.	Sykes, Ltd., Lightown, 1 doz. Patent Laces at 13s. per doz. returned "wrong size" .	0	13	0
,,	9.	Rush & Co., Ltd., Broadfoot, 1d. per yd. overcharge on 370 yds. "Powerful" Strapping.	1	10	10

The Invoices received were—

			£	s.	d.
Jan.	4.	North-Eastern Railway Co., Carriage . .	1	2	6
,,	14.	Rush & Co., Ltd., Broadfoot, Goods . .	39	6	1
,,	16.	Warner Bros., Printing Show Cards . .	22	11	1
,,	21.	Vale & Miller, fitting up new Show Room, £66 10s., and mending Show Case broken during Stocktaking, £3 15s. . . .	70	5	0
,,	27.	North-Eastern Railway Co., Carriage . .	0	17	3
,,	31.	Warner Bros., New Set of Account Books, received January 1	4	15	0

The Credit Notes received were—

			£	s.	d.
Jan.	3.	Rush & Co., Ltd., Goods returned	3	0	0
,,	18.	Warner Bros., allowance for Show Cards slightly damaged in transit.	1	0	0

Cash received during month was—

			£	s.	d.
Jan.	4.	From Bank by cheque	30	0	0
,,	10.	Rush & Co., Ltd., cheque in settlement of account to date	58	2	6
,,	15.	Sykes, Ltd., cash, £32 1s. 8d., and cheque (drawn by C. Rogers), £20; Discount, £2 14s. 10d.			
,,	25.	From Bank by cheque	20	0	0

The Payments were—

			£	s.	d.
Jan.	4.	Wages	6	3	6
,,	4.	Sundry Small Expenses	0	14	3
,,	9.	North-Eastern Railway Co., cash	1	2	6
,,	11.	Wages	6	5	0
,,	11.	To Bank	58	2	6
,,	16.	To Bank	35	0	0
,,	18.	Wages	6	4	0
,,	18.	Bank debit account with amount of C. Rogers' cheque returned dishonoured . . .	20	0	0
,,	20.	Warner Bros., cheque in settlement to date .	20	9	6
,,	25.	Wages	6	1	3
,,	25.	Sundry Small Expenses	1	8	10
,,	29.	Vale & Miller, cheque on account . . .	40	0	0
,,	31.	William Carr, withdrawal, cash £25; cheque, £25.			

On January 31 the Bill Receivable, £29, is discounted with the Bank, who charge 4*s.* 9*d.* for doing so.

It is doubtful if the balance due from Sykes, Ltd., will be recovered, therefore increase the Bad Debt Reserve to cover an estimated loss of 50 per cent. of this debt.

Stock of Goods, £755 10*s.*; Advertising Stock, £26.

Each partner is entitled to 5 per cent. per annum interest on his capital in the business and they share the profits equally.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

THIRD STAGE, 1908.

[3 hours allowed.]

1. Lead & Hall, Ltd.

TRIAL BALANCE, *December* 31, 1907.

	£	*s.*	*d.*	£	*s.*	*d.*
1,164 Ordinary Shares £7 each, £5 10*s.* per share called up				6,402	0	0
30 Vendors' Shares £7 each, fully paid				210	0	0
Prepaid on 32 Ordinary Shares				48	0	0
Stock, Jan. 1, 1907	3,644	18	8			
Engine, Boiler and Shafting, Jan. 1, 1907	170	0	0			
Machinery, Jan. 1, 1907	1,000	0	0			
Office Furniture, Jan. 1, 1907	30	0	0			
Trade Fixtures and Utensils, Jan. 1, 1907	360	0	0			
Horse and Van, Jan. 1, 1907	30	0	0			
Chas. Johnson, Mortgage				3,500	0	0
Directors' Remuneration	206	12	0			
Bank Charges	28	6	0			
Freehold Factory	7,350	0	0			
Profit and Loss Account, Jan. 1, 1907				584	5	6
Reserve Fund Account				2,350	0	0
Interest on Mortgage, etc.	155	15	2			
Bank	21	13	0			
Creditors				1,142	5	9
Discount received				314	6	11
Discount allowed	257	16	11			
Bad Debts	12	4	0			
Wages	4,126	7	8			
Travelling Expenses	255	18	0			
Stamps and Parcels Post	114	0	0			
Carriage outwards	319	13	11			
Trade Expenses	280	11	6			
Fuel	40	17	8			
Sales				15,637	6	7
Purchases	8,090	11	11			
Rates, Taxes and Insurance	317	1	2			
Additions to Plant during year	386	2	9			
Repairs	52	12	2			
Horse-keep	57	1	5			
Commission, Travellers	279	2	0			
Cottage rent				25	15	10
Debtors	2,569	7	7			
Bill Receivable (Bad, write off)	5	0	0			
Cash	52	7	1			
	£30,214	0	7	£30,214	0	7

The additions to Plant, £386 2*s.* 9*d.*, consist of Machinery, £187 14*s.* 3*d.*; Shafting, £117 1*s.* 2*d.*; Trade Fixtures, £40 9*s.* 10*d.*; New Horse, £40 17*s.* 6*d.*

Stock, December 31, 1907, is £3,650 9*s.* 6*d.*

Write off Depreciation—

Freehold, £50; Machinery, 10 per cent.; Engine, Boiler and Shafting, 12½ per cent.; Trade Fixtures, 10 per cent.; Office Furniture, 5 per cent.; Horse and Van, 20 per cent. The additions during the year to be depreciated for six months.

Reserve Discount 2½ per cent. on Creditors, 3¾ per cent. on good Debtors, and Reserve for Bad Debts, £100.

Rates and Insurance prepaid, £78.

During the year the Company have manufactured Stationery goods, £123 9*s.*, for their own use in the office, and they have a Stock of £25 on hand at December 31, 1907.

The Prepaid calls, £48, are entitled to interest 5 per cent. per annum (owing for 1907).

The Manager is to have a bonus of 5 per cent. on the net profit.

The Vendors' Shares take one-fourth of any profit earned in excess of 10 per cent. on the Ordinary Capital called up.

Prepare Trading and Profit and Loss Account and Balance Sheet, December 31, 1907.

2. A Company has a very large number of credit customers; what suggestions as to Book-keeping can you make with a view to keeping an eye on the doubtful ones? When preparing the Balance Sheet what steps would you take to ensure as far as possible the debts being shown at a correct value?

3. A Trader's Warehouse is burnt down, and the following books, etc., which had not been placed in the safe are destroyed, viz. Bought Ledger, Purchases Book, and Invoice Files. The list of the balances of the Bought Ledger made up to the end of the previous year and the Stock Sheets at the same date are preserved in the safe with the usual books. State in detail how you would proceed to restore sufficient records with a view to (*a*) the Insurance claim and (*b*) the current year's Trading Account and Balance Sheet.

4. Jones & Co., Bradford, have an agent (W. Rimmer) in Barcelona, who obtains orders for goods, and delivers the goods from a stock supplied to him by Jones & Co., Rimmer invoices the goods to the customer, and sends monthly Sale Sheet to Jones & Co., the items being charged in pesetas. Rimmer collects the cash and pays it to Jones & Co.'s account at Crédit Lyonnais, Barcelona, after deducting his salary and expenses, sending a monthly Cash Sheet to Jones & Co. Jones & Co. wish to include in their Sales Ledger an account for each foreign customer, in sterling. Explain fully how you would deal with these matters.

5. T. Robson, a Manufacturer, buys each month £500 worth of Raw Materials from Cook & Co. on the following terms of discount: for prompt cash 5 per cent., cash by the end of the following month 3¾ per cent., cash by the end of the second month following 2½ per cent., cash by the end of the third month following 1¼ per cent.; after that time, net. (For example, materials bought in January are subject to 3¾ per cent. if paid for by February 28, and 2½ per cent. if paid for by March 31, etc.) Prepare accounts extending over six months showing the result to Robson as regards Interest and Discount—

(*a*) If he owes his Bank £5,000 at 5 per cent. interest on January 1, 1908, and takes full discount;
(*b*) If he owes his Bank £5,000 at 5 per cent. interest on January 1, 1908, and takes no discount.

The interest may be dealt with in months, not days.

6. In a set of books there are several Sales Ledgers, each balanced separately every month. The balances at March 31 extracted from the Ledgers amount to £1,210 8*s.* 3*d.*, the Sold Ledger summary shows a balance of £1,200 8*s.* 3*d.*

How would you proceed to find the difference, beginning where you think a mistake of this kind would be most likely to occur? Explain how you would search for the error through all the books affected.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

FIRST STAGE, 1909.

[3 hours allowed.]

1. Define fully the use of a Sales Day Book.

2. Two traders A. and B. carry on the same kind of business. A. has a set of books which are properly kept, whilst B. keeps no books, but only has incomplete memoranda of a portion of his transactions. What will A.'s advantages be as compared with B. at the end of a year's trading?

3. What are the points which you would consider it necessary to watch if you were entrusted with the keeping of a Cash Book?

4. On March 1, 1909, Chas. Read commences business and borrows from his father, John Read, £250.

			£	*s.*	*d.*
Mar.	1.	He pays £200 into Commercial Bank.			
,,	1.	He becomes Tenant of a Shop at £4 a month Rent.			
,,	1.	Paid cash for Shop Fixtures	20	0	0
,,	1.	Paid to G. Ellis for Stock in Shop by cheque	80	0	0
,,	2.	Bought Goods from A. Reynolds	30	8	7
,,	4.	Paid Plate Glass Insurance	0	10	6
,,	5.	Sold Goods to Beale & Co.	10	0	5
,,	5.	Sold Goods to Ashton & Mills	3	16	4
,,	5.	Paid for cleaning Shop	3	10	0
,,	6.	Receipts per Shop-till for week	18	5	6
,,	7.	Ashton & Mills return Goods	0	2	6
,,	8.	Paid to Bank	30	0	0
,,	11.	Sold Goods to Beale & Co.	5	19	7
,,	12.	Ashton & Mills pay cash (Discount allowed, 3*s.* 10*d.*)	3	10	0
,,	13.	Receipts per Shop-till for week	19	14	3
,,	13.	Paid self for Household Expenses	2	10	0
,,	13.	Paid Wages, 2 weeks	8	16	8
,,	15.	Received cheque from Beale & Co., and paid into Bank (Discount allowed, 8*s.*)	15	12	0
,,	15.	Paid to Bank	15	0	0
,,	15.	Paid for Advertising	2	10	0
,,	16.	Sold Goods to Beale & Co.	2	0	5
,,	16.	Bought Goods from A. Reynolds	5	4	9

			£	s.	d.
Mar.	18.	Paid Rates by cheque	4	13	3
,,	18.	Paid A. Reynolds cheque (Discount, 13s. 4d.)	35	0	0
,,	19.	Sold Goods to Ashton & Mills	14	3	7
,,	20.	Receipts per Shop-till for week	27	6	4
,,	20.	Bought Goods from A. Reynolds	4	3	7
,,	24.	Sold Goods to Beale & Co.	4	6	11
,,	27.	Receipts per Shop-till for week	18	9	2
,,	27.	Paid month's Rent	4	0	0
,,	27.	Paid self for Household Expenses	3	10	0
,,	27.	Sold Goods to Beale & Co.	1	18	4
,,	27.	Paid Wages, 2 weeks	11	0	0
,,	28.	Goods returned by Beale & Co.	0	8	11
,,	29.	Paid for Repairs to premises	4	13	6

Enter in the proper books and prepare Trial Balance.

5. J. Rhodes has the following transactions with B. Sharp—

On Jan. 1, 1909, Sharp owes Rhodes £15 8s. 6d. Rhodes sells goods to Sharp: Jan. 28, £4 16s. 9d.; Feb. 3, £8 17s. 5d.; Feb. 9, £5 12s. 11d.; March 4, £13 12s. 9d.; March 18, £6 14s. 5d.; March 24, £3 11s. 9d. Sharp returns Goods, Feb. 6, £2 16s. 4d.; March 1, 17s. 11d. Rhodes buys Goods from Sharp: Jan. 16, £10 10s.; Feb. 18, £14s. 15s. 9d.; March 25, £3 9s. 2d.; and on Feb. 28, Rhodes returns Goods, £3 5s. 9d. Rhodes allows Sharp discount 5 per cent., and Sharp allows Rhodes 2½ per cent. Make out an account showing how much Sharp owes net at March 31.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

Second Stage, 1909.

[3 hours allowed.]

You are provided with paper ruled for the following books—

Journal,	Cash Book,
Sales Day Book,	Sales Ledger,
Returns Inwards Book,	Bought Ledger,
Purchases Day Book,	Impersonal Ledger,
Returns Outwards Book,	Private Ledger.

Messrs. William Abbott & James Berrys are Coal, Coke and Lime Merchants, trading as Messrs. Abbott & Berrys. On February 1, 1909, their Assets and Liabilities were as follows—

				£	s.	d.
Horses, Carts and Harness				184	10	0
Office Furniture				60	0	0
Stock: Coal	£560	0	0			
Coke	320	0	0			
Lime	140	0	0			
				1,020	0	0
Bill Receivable (Bryde & Son, due March 4, 1909)				100	0	0
Sales Ledger Balances—						
Bryde & Son				65	10	0
Anderson & Co.				235	6	8
Bought Ledger Balances—						
Anderson & Co.				118	3	4
Deepdown Colliery Co.				72	4	9
Bill Payable (Deepdown Colliery Co., due Feb. 18, 1909)				240	0	0
Bank Overdraft				169	11	3

The Capital in the business belongs to the partners in equal shares. The Partnership Agreement provides for interest on Capital at 5 per cent. per annum, and for Wm. Abbott to have five-eighths of the profit, James Berrys three-eighths.

You are required to enter up and post the books for the two months, prepare Trial Balance, and close the books on March 31, 1909, showing Balance Sheet. The Sales Day Book and Purchases Day Book are ruled to keep a separate record of Coal, Coke, and Lime. Expenses are not entered in the books until payment is made. All cash received is paid to Bank on the following morning. The Cash Book is balanced monthly, and the totals of Sales, Purchases, Returns, and Discount are posted to the Impersonal Ledger monthly. The Stock is taken on March 31, 1909, and is found to be Coal, £750; Coke, £425; Lime, £95.

The Invoices sent out for goods sold were—

			£	*s.*	*d.*
Feb.	3.	Thos. Speight & Co., Ltd., Birkenhead, Coal	138	13	8
,,	8.	Bryde & Son, Bristol, Lime	83	4	10
,,	8.	,, ,, Coke	49	4	1
,,	17.	Anderson & Co., York, Coal	196	14	6
,,	17.	,, ,, Coke	73	4	9
Mar.	1.	Bryde & Son, Bristol, Lime	6	2	4
,,	16.	T. Speight & Co., Ltd., Birkenhead, Coal	539	1	8
,,	16.	,, ,, Coke	196	4	1
,,	16.	,, ,, Lime	44	16	7
,,	22.	Anderson & Co., York, Coke	64	3	10
,,	22.	,, ,, Coal	113	6	10

The Credit Notes sent out were—

Feb.	10.	Bryde & Son, Bristol, overcharge on Lime sent 8th inst.	4	3	3
,,	20.	Thos. Speight & Co., Ltd., error in invoice sent 3rd inst.		10	0

The Invoices received were—

Feb.	10.	Deepdown Colliery Co., Coal	329	8	6
,,	10.	,, ,, Coke	134	3	2
,,	24.	Anderson & Co., Lime	43	11	4
Mar.	11.	Deepdown Colliery Co., Coal	798	4	6
,,	11.	,, ,, Coke	285	1	8
,,	26.	Anderson & Co., Lime	48	3	3

The Credit Notes received were—

Mar. 13. Deepdown Colliery Co., allowance for short weight in Coke sent 11th inst., £3 2*s.* 6*d.*

,, 28. Anderson & Co., overcharge on Invoice dated 26th inst., £2 9*s.* 8*d.*

Cash received was—

Feb. 10. Anderson & Co., cheque, £114 4*s.* 6*d.*, in settlement of accounts to January 31, 1909, Sales Ledger account subject to 1¼ per cent. discount, £2 18*s.* 10*d.*; Bought Ledger account net.

,, 10. Bryde & Son, cheque, £63 17*s.* 3*d.*; Discount, £1 12*s.* 9*d.*

Mar. 2. Bill Receivable (Bryde & Son, due March 4), £100, given to Bank.

,, 11. T. Speight & Co., Ltd., cheque, £134 14*s.* 7*d.*; Discount, £3 9*s.* 1*d.*

Mar. 11. Anderson & Co., cheque, £223 0s. 5d., in settlement of account to February 28, 1909; Sales Ledger account subject to $1\frac{1}{4}$ per cent. discount, £3 7s. 6d.; Bought Ledger account net.

,, 29. Bryde & Son, cheque, £205 3s. 9d., being first and final dividend of 17s. 6d. in £ on account due.

,, 29. Employers' Insurance Co., cheque, £4 3s. 6d., being refund of compensation already paid to one of the Carmen by the firm as Wages whilst away from work owing to injuries received.

The cheques drawn were—

Feb. 12. Deepdown Colliery Co., £68 12s. 6d.; Discount, £3 12s. 3d.

,, 13. Selves, £25 (for Wages, £23 2s. 6d.; Trade Expenses, £1 17s. 6d.).

,, 18. Bill Payable, £240, due this day advised at Bank.

,, 24. Midland Railway Co., £15 6s. 3d., for Carriage outwards.

,, 27. Wm. Abbott, £20, withdrawal.

,, 27. Jas. Berrys, £20, withdrawal.

,, 27. Nield & Son, £10 5s. for Advertising.

,, 27. Selves, £32 (for Wages, £23 12s. 6d.; Travelling Expenses, £5 4s.; Trade Expenses, £3 3s. 6d.).

Mar. 5. Bank return Bryde & Son's acceptance, £100, dishonoured, and charge 2s. for noting.

,, 10. Deepdown Colliery Co., £440 8s. 1d.; Discount, £23 3s. 7d.

,, 12. Selves, £35 (for Wages, £24 19s. 6d.; Travelling Expenses, £5 18s. 2d.; Trade Expenses, £4 2s. 4d.).

,, 18. Wm. West, £35 for additional Horse.

,, 26. Selves, £33 (for Wages, £23 4s. 3d.; Trade Expenses, £9 15s. 9d.).

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE.

Third Stage, 1909.

[3 hours allowed.]

1. Martin Hanson & Co., Ltd.

Trial Balance, *December* 31, 1908.

	£	s.	d.	£	s.	d.
Preference Shares: 13,500 £1 5 per cent. shares fully paid				13,500	0	0
Ordinary Shares: 58,000 £1 shares fully paid				58,000	0	0
Debenture Stock, $4\frac{1}{2}$ per cent.				19,500	0	0
Freehold	23,500	0	0			
Fixed Plant	4,400	0	0			
Loose Tools, etc.	2,750	0	0			
Furniture	200	0	0			
Horses, Carts, etc.	250	0	0			
Patterns and Models	3,200	0	0			
Goodwill	53,293	0	0			
Debenture Interest paid to Dec. 31, 1908	877	10	0			

	£	s.	d.	£	s.	d.
Preference Dividend paid to Dec. 31, 1908	675	0	0			
Loan Interest paid to Dec. 31, 1908	263	2	10			
Directors' Fees	250	0	0			
Bank Commission	26	18	3			
Subscriptions	29	14	6			
Bank Interest				179	17	6
Debenture Trustees' Fees	26	5	0			
Loans				5,530	0	0
Bank	6,593	10	10			
Reserve Fund				6,100	0	0
Investments	707	0	0			
Profit and Loss Account, Dec. 31, 1907				6,493	8	6
Stock, Dec. 31, 1907	8,302	6	2			
Purchases	17,315	10	7			
Discount received				221	11	3
Returns Outwards				51	10	11
Sales				48,701	17	2
Discount allowed	1,390	13	11			
Wages	18,658	11	7			
Bad Debt account				408	1	9
Coal	1,890	19	1			
Insurance	168	1	2			
Loans to Workmen	5	12	2			
Horse-keep	735	3	4			
New Plant (Loose)	385	17	9			
New Buildings	81	9	9			
New Patterns	525	5	10			
Repairs	1,594	0	5			
Trade Expenses	635	7	2			
Salaries	1,307	1	6			
Debtors	11,612	8	5			
Creditors				3,363	19	10
Cash	99	16	8			
New Electric Light Installation (to be spread over 3 years)	300	0	0			
	£162,050	6	11	£162,050	6	11

Stock, December 31, 1908: Goods, £8,605 18*s.* 9*d.*; Horse-keep, £25.

Dividend accrued due on Investments, £150.

Depreciation: Fixed Plant, 5 per cent.; Loose Tools, 7½ per cent.; Patterns, 10 per cent.; Horses and Carts, 20 per cent.; Furniture, 5 per cent. Half Depreciation to be charged on additions during year.

Reserve £600 for Bad Debts and £667 for Discounts on Debts due.

If there is any surplus profit for the year after paying Debenture Interest and Loan Interest, Preference Dividend and 5 per cent. Ordinary Dividend, place 25 per cent. of such surplus to a Special Reserve Account,

Prepare Trading and Profit and Loss Account and Balance Sheet, December 31, 1908.

2. X., Y., and Z. are partners.

Their respective Capitals in the business as shown by their Balance Sheet on December 31, 1908, are X., £3,000; Y., £2,200; Z., £800. The profit for the year, amounting to £1,600, has been credited to X. half share, Y. and Z. quarter share each, and the books have been closed.

During 1908 they have withdrawn nothing beyond their salaries, which have already been charged to Profit and Loss Account. It is found on March 31, 1909, that interest on the Partners' Capital (5 per cent. per annum) as provided by the partnership agreement has been omitted.

Give the entries you would make in the books to correct this error.

3. A Manufacturer's books show the following figures for each item for the two years 1907 and 1908: Materials used, £22,389 and £21,427; Wages, £7,495 and £7,577; Rent and Power, £1,659 and £1,655; Carriage, £513 and £494; Trade Expenses, £303 and £309; Gas and Water, £213 and £240; Travellers, £719 and £763; Repairs, £426 and £563; Insurance, £78 and £78; Depreciation, £600 and £580.

Goods produced (Net), £36,468 and £36,261.

Prepare a statement showing for each year the various costs per cent. on production.

4. A Limited Company's Balance Sheet contains (amongst others) the following items—

Assets.	£	s.	d.
Closed works (cost £5,000, now worth £1,000)	4,500	0	0
Profit and Loss Account Balance	2,780	0	0
Goodwill	1,500	0	0
Liabilities.			
Forfeited Shares Account	100	0	0
Reserve Fund Account	7,680	0	0

What would you suggest with regard to these items?

5. Lead & Hall, Ltd., have a Share Capital of 1,164 £7 shares, £5 10*s*. per share called up. A. V. Rawle has 1,100 shares, £5 10*s*. per share paid up. C. B. Rooke has 64 shares, of which 32 are fully paid up (*i. e.* £7 per share). The Reserve Fund Account is £2,350. The Directors call up the final £1 10*s*. per share, and at the same time distribute a Bonus (out of Reserve) of £1 10*s*. per share.

Write up the entries which you would make in the books to give effect to the foregoing.

Assuming that 12½ per cent. dividend has been previously paid, and the available profit is the same now, how will the rate of Dividend be affected by this alteration in capital?

6. "The Reserve Fund of a Company should be invested outside the Company's business." This statement is frequently made; state your reasons for agreeing or disagreeing with it.

LANCASHIRE AND CHESHIRE INSTITUTES.

ELEMENTARY GRADE, 1907.

[3 hours allowed.]

(*You must first attempt not more than three of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this Grade.*)

Part I.

1. What do you understand by—
   (*a*) Capital;
   (*b*) Voucher;
   (*c*) Bringing down a balance?
2. Mention two or three ways in which a cheque can be crossed.
3. What is a Bank Pass Book? Explain its use to a business man.
4. Rule the form of a Petty Cash Book, and enter an amount of £12 received by the petty cashier on March 1, 1907, and the details of four payments made by him for the week ended March 8. Bring down the balance.
5. On January 1, 1907, John Smith had cash in hand, £5 10*s.*; cash at Bank, £60 10*s.*; Goods on hand, £125; and William Alton owed him £7. He owed to Arthur Roberts £27 10*s.* Journalize (only) the above.

Part II.

6. On March, 1, 1907, Charles Henry Smithson commenced business as a Grocer with £1,000 capital, of which £950 was paid into his Banking Account, and £50 retained as Cash in hand for business purposes. His transactions for the month were as follows—

1907.			£	*s.*	*d.*
Mar.	1.	Purchased Goods at J. Robinson & Son's auction mart, and paid cheque	731	5	0
,,	1.	Also bought Office Furniture and Fittings, for which he paid cash	38	0	0
,,	9.	Sold to Mrs. B. Vero, Goods	7	5	0
,,	13.	Purchased from Lipton's, Ltd., Tea	28	10	0
,,	15.	,, ,, J. G. Cooper, Sugar	13	5	0
,,	16.	Paid Lipton's, Ltd., a cheque in full settlement of account	27	0	0
,,	18.	Goods bought at J. Robinson's auction mart, and paid cash	10	0	0
,,	19.	Sold to Mrs. A. Harker, Goods	3	3	0
,,	25.	Received from Mrs. B. Vero, cash	7	0	0
		And allowed her Discount	0	5	0
,,	29.	Cash Sales for month	152	0	0
,,	29.	Paid Shop Assistants' Wages for month (cash)	5	6	0
,,	29.	Paid Rent for month (cheque)	5	0	0
,,	29.	Paid Trade Expenses for month (cash)	9	10	0
,,	29.	Paid into Bank	102	5	0

Enter the above items in the proper books, post to Ledger accounts, and prepare a Trial Balance.

Part III.

7. From the foregoing, make out Profit and Loss Account and Balance Sheet, on March 31, 1907, taking the value of the Stock on that date at £659 3*s.*

LANCASHIRE AND CHESHIRE INSTITUTES.

INTERMEDIATE GRADE, 1907.

[3 hours allowed.]

(*You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this Grade.*)

Part I.

8. What is the meaning of—
   (*a*) Book Debts;
   (*b*) Dividend;
   (*c*) Reconciliation Account?

9. What are the advantages of Double Entry book-keeping over Single Entry? Can a trader who keeps his books by Single Entry ascertain his profit or loss for any period, and if so, how?

10. What do you understand by the "Opening Entries" and "Closing Entries" of a business? Give an example of each.

11. Upon which side of a Ledger would you expect to find the following balances—
   (*a*) Discount Account;
   (*b*) Goodwill Account;
   (*c*) Furniture and Fittings Account;
   (*d*) Rents Received Account?

12. Explain the meaning of—
   (*a*) Personal Account;
   (*b*) Impersonal Account;
and give an example of each.

13. Sketch a form of Wage Book (for a week) for a firm of joiners who pay their men according to the number of hours they work at a fixed rate per hour. Fill in the particulars for the week ending March 9, 1907, for—
   Albert Smith, who works 50 hours at 9*d*. per hour.
   Harry Jones, who works 54 hours at 9½*d*. per hour.

Part II.

14. On January 1, 1907, the position of Moses Atkinson, trading as M. Atkinson & Co., Drapers, Llandaff, was as follows—

	£	s.	d.	£	s.	d.
Cash in hand	56	10	0			
Petty Cash in hand	7	8	0			
Balance in Bank	349	12	0			
Office Furniture and Fittings	57	15	0			
Cost of Electric Light Installation	125	0	0			
Stock-in-trade	3,026	5	0			
Owing by Geo. Somers & Co.	121	0	0			
,, ,, Richard Smith	98	19	0			
,, ,, A. Abson & Sons	26	10	0			
Owing to W. Wilson				339	19	0
,, ,, Dickenson Bros.				237	8	0
,, ,, Whittaker's, Ltd.				107	14	0

The transactions for the month were as follows—

1907.						£	s.	d.
Jan.	1.	Purchased from W. Wilson, Goods				128	10	0
,,	1.	Sold to Richard Smith, Goods				59	8	0
,,	7.	Received cash from Geo. Somers & Co., in full settlement, which I accept				118	17	0
,,	9.	Paid Fire Insurance out of Petty Cash				4	3	0
,,	12.	Paid W. Wilson, by cheque—						
		Account	339	19	0			
		Less Discount 5 per cent.	17	0	0			
						322	19	0
,,	14.	Returned to Whittaker's, Ltd., Goods which were defective				10	14	0
,,	17.	Sent Whittaker's cheque for balance of account, *less* 5 per cent. Discount.						
,,	18.	Received a three months' Bill from Richard Smith				96	8	0
		And allowed him Discount				2	11	0
,,	19.	Paid Smith's Bill into Bank, who charged me for Discount				1	0	0
		And credited my account with				95	8	0
,,	20.	Moses Atkinson (proprietor) withdraws for his *private account* Household Expenses, cash				50	0	0
,,	21.	Purchased a new Milner's safe for				22	5	0
		And paid cheque.						
,,	22.	Received cheque, and paid into Bank same day, from A. Abson & Sons, on account				10	0	0
,,	30.	Paid Wages of Assistants during month, out of cash				105	10	0
,,	30.	Paid Rent, by cheque				30	0	0
,,	30.	Paid Stationery and Sundry Expenses out of Cash				3	15	0
,,	30.	Paid Stationery and Sundry Expenses out of Petty Cash				1	7	0
,,	30.	Cash Sales during month				505	10	0
,,	30.	Paid cash into Bank during month				490	5	0
,,	30.	Write £10 off Furniture and Fittings, etc.						
,,	30.	Charge Moses Atkinson £1 for interest on drawings.						
,,	30.	Credit his Capital Account with £12 for Interest.						

Enter the above items in the proper books, post to Ledger, and take out Trial Balance.

Part III.

15. From the foregoing close the Accounts, bring down the balances, make out Profit and Loss Account, and Balance Sheet. On January 31 the Stock amounted to £2,819 13*s*.

LANCASHIRE AND CHESHIRE INSTITUTES.

ADVANCED GRADE, 1907.

[3 hours allowed.]

(*You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this work.*)

Part I.

16. I buy Goods on March 1, 1907, dated forward as June. I make up my accounts on April 30. How should I deal with this item in my Purchases Day Book, Ledger, and Balance Sheet?

17. In rendering accounts to the surveyor of taxes for Income Tax purposes, certain adjustments are necessary. Name at least five of such items, and the reason why they are included in arriving at the figure of assessment.

18. Explain the difference between—
   (*a*) Sinking Fund,
   (*b*) Reserve Fund,
   (*c*) Reserve Account.

19. What do you understand by—
   (*a*) Nominal Account,
   (*b*) Real Account,
   (*c*) Personal Account.

Give two examples of each.

20. Is it advantageous or not to convert a business into a Limited Liability Company? Give reasons for your answer.

21. A friend desires you to advise him as to whether he should invest £1,000 (which he has free) in—
   (*a*) Ordinary Shares of a Company which has paid 8 per cent. per annum during the last three years; or
   (*b*) In 6 per cent. Cumulative Preference Shares of the same Company; or
   (*c*) In 4 per cent. Debentures of the same Company.

How would you advise him?

Part II.

22. The Nominal Capital of the Lancashire and Cheshire Engineering Company, Ltd., is—

£10,000 divided into 10,000 Ordinary Shares of £1 each,

£20,000 divided into 20,000 7 per cent. Cumulative Preference Shares of £1 each,

and the Company is authorized to issue £10,000 divided into 200 5 per cent. First Mortgage Debentures of £50 each.

From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and Balance Sheet, as on March 31, 1907.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Ordinary Share Capital				10,000	0	0
Preference Share Capital				20,000	0	0
Arrears on Ordinary Shares	70	0	0			
200 5 per cent. First Mortgage Debentures of £50 each, £30 paid				6,000	0	0
Sundry Creditors				5,609	0	0
Sales				24,698	0	0
Returns off Purchases				287	0	0
Profit and Loss Balance, March 31, 1906				169	10	0
Plant and Machinery	15,000	0	0			
Patents	3,960	10	0			
Office Furniture and Fittings	127	0	0			
Sundry Debtors	12,125	10	0			

	Dr. £ s. d.	Cr. £ s. d.
Purchases	15,965 16 0	
Returns off Sales	267 10 0	
Salaries	200 0 0	
Goodwill	9,788 5 0	
Stock of Materials, March 31, 1906	2,760 0 0	
Wages, productive	2,576 10 0	
Carriage (inwards)	320 5 0	
Carriage (outwards)	167 10 0	
Coal and Coke	250 0 0	
Loose Tools, March 31, 1906	1,890 0 0	
Rent, Rates, Taxes, and Insurance	236 10 0	
Sundry Expenses	157 10 0	
Discounts allowed and received	760 0 0	200 0 0
Bad Debts	127 10 0	
Directors' Fees	200 0 0	
Interim Preference Dividend, paid October 15, 1906	665 0 0	
Bank charges	57 10 0	
Debenture Interest, *less* Tax	285 0 0	
Cash in hand	73 4 0	
Lloyds Bank, Ltd.		1,067 10 0
	£68,031 0 0	£68,031 0 0

Stock on hand, March 31, 1907, £3,025 10s.
Loose Tools, March 31, 1907, £1,870.
Write off Plant and Machinery, 10 per cent. per annum.
Write off Office Furniture and Fittings, 5 per cent. per annum.
Write off Patents, 20 per cent. per annum.
Reserve £200 for future Discounts, and £150 for Bad Debts.

Part III.

23. Prepare a Statement of Affairs from the following particulars of Jonas Johnson, Manufacturer, Burnley, on March 18, 1907.

	£ s. d.
Unsecured Creditors	22,100 0 0
Fully-secured Creditors	9,870 0 0
Partly-secured Creditors	4,764 0 0
Securities held by Creditors, fully secured, valued at	12,107 0 0
Securities held by Creditors, partly secured, valued at	2,321 0 0
Creditors for Rents, Rates, Taxes, and Wages (of which £600 only is Preferential)	850 0 0
Plant and Machinery, book value, £12,600, estimated to produce only one-third of this sum.	
Office Furniture, estimated to realize	50 0 0
Cash in hand	5 0 0
Book Debts, Good, expected to realize	3,000 0 0
Doubtful, £500, expected to realize	200 0 0
Bad, £300, expected to realize	*Nil.*
Life Policy on the life of Jonas Johnson, in the Atlas Assurance Co., paid 20 annual premiums of £24 each. Estimated surrender value is two-fifths of the amount paid in premiums.	

How much in the pound does the Estate show?

LANCASHIRE AND CHESHIRE INSTITUTES.

Elementary Grade, 1908.

[3 hours allowed.]

(*You must first attempt not more than three of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.*)

Part I.

1. Explain the meaning of the following—
   (*a*) Personal Account,
   (*b*) Impersonal Account,
   (*c*) Crossed cheque,

and give an example of each.

2. What is the object of a Goods Account, and how is it balanced?

3. Explain the difference between Cash Discount and Trade Discount.

4. On April 1, 1908, James W. Barlow had Cash in hand, £17 10*s.*; Goods on hand, £50 10*s.*; and W. Anson and Charles Harper owed £20 10*s.* and £17 respectively; Barlow had no liabilities, excepting Lloyds Bank, Ltd., to whom he owed £17 10*s.* Journalize (only) the above.

5. Make out Sam Jay's account in your Ledger in respect of the following dealings during March 1908—

1908.		£	*s.*	*d.*
Mar. 2.	Jay buys Goods from you	20	0	0
,, 8.	You receive cash from Jay on account . .	15	0	0
,, 10.	You sell Goods to Jay	16	0	0
,, 31.	You buy Goods from Jay	2	0	0

Bring down the Balance.

Part II.

On March 1, 1907, William Slater commenced business with a balance at his Bankers of £1,500, and Cash in office, £225. The transactions for the month were as follows—

1907.		£	*s.*	*d.*
Mar. 1.	Purchased Goods for cash	175	0	0
,, 2.	Paid for Office Furniture and Fittings, cash.	10	0	0
,, 5.	Paid into Bank	25	0	0
,, 6.	Sold W. Anson, Goods	142	0	0
,, 9.	Received from W. Anson on account . .	100	0	0
,, 12.	Sold J. Wormald, Goods	35	0	0
,, 15.	Received from J. Wormald	32	0	0
	And allowed him Discount . . .	3	0	0
,, 16.	Bought of Sims & Co., Goods	80	0	0
,, 19.	Paid cheque to Sims & Co. in full settlement	76	0	0
,, 19.	Purchased from Emile Robarts, Goods . .	50	0	0
,, 31.	Cash Sales for month	20	0	0
,, 31.	Paid Wages by cash	15	0	0
,, 31.	Paid Rent for month by cheque . . .	10	0	0
,, 31.	Paid into Bank	100	0	0

Enter the above transactions in the proper books, post to Ledger accounts and prepare a Trial Balance.

Part III.

From the foregoing, make out Profit and Loss Account and Balance Sheet on March 31, 1907, taking the value of the Stock on that date at £128.

LANCASHIRE AND CHESHIRE INSTITUTES.

Intermediate Grade, 1908.

[3 hours allowed.]

(*You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.*)

Part I.

1. A merchant sells to John Black Goods to the amount of £600, and as Black cannot pay for them when due the merchant takes a Bill at 3 months for £615, charging £15 for interest. Journalize (only) the above transaction in the merchant's books.

2. Explain briefly the following terms as used in connection with cheques: "Endorsing," "Dishonoured," "Not Negotiable," "Refer to Drawer."

3. What are the points of difference between a Bill of Exchange and a Promissory Note? Write out the form of a Promissory Note.

4. What do you understand by a Trial Balance? What is its use? When should it be prepared?

5. On June 30, 1908, when you take out your balances you find that William Armstrong is indebted to you in the sum of £80. It is found out, however, that by an oversight you have omitted to give him credit for Goods returned, amounting to £20, by which amount his account is now reduced. On September 30, 1908, you receive from his Trustee in Bankruptcy a first and final dividend of 4*s.* 6*d.* in the £. Where and how would you enter this transaction of September 30, 1908?

6. A friend of yours is starting a business which is divided into three departments, A, B, C. He is anxious to know the Profit or Loss on each department. Give a list of the books which you would advise him to keep, with the ruling of one of the books only.

Part II.

On March 1, 1908, Walter Benn bought from W. James his business as merchant, paying him, cash £500 for Stock-in-trade, £100 for Fixtures, and £50 for Office Furniture. He also paid into the bank £600 for further working capital, and retained a further £50 for Office Cash. The transactions for the month of March were as follows—

			£	s.	d.
Mar.	1.	Drew and cashed cheque for Petty Cash .	20	0	0
,,	2.	Purchased from A. Penny, Goods for cheque	500	0	0
,,	4.	Sold Goods to W. Nield	205	0	0
,,	6.	Received Bill at 3 months from W. Nield in settlement of his account	200	0	0
,,	6.	Discounted Bill at Bank, who charged me £3 for discount	3	0	0

		£	s	d.
Mar. 8.	Paid Postages out of Petty Cash . . .	4	0	0
,, 10.	Paid his Accountant cash for having examined the books of W. James	20	0	0
	Paid Solicitor cash for Expenses in connection with the transfer of W. James's business .	10	0	0
,, 12.	Purchased Goods from A. Penny . . .	250	0	0
,, 14.	Walter Benn withdraws from Bank for Household Expenses	50	0	0
,, 16.	Received Credit Note from A. Penny for damages to Goods bought on the 12th inst.	20	0	0
,, 18.	Sold Goods to C. Gibson	140	0	0
	Of which he returned on the following day not up to sample	20	0	0
,, 20.	Received cheque from C. Gibson in settlement, and paid into Bank	120	0	0
,, 21.	Cheque from C. Gibson returned from Bank as dishonoured.			
,, 22.	Sold Goods to C. Smith	25	9	8
,, 31.	Paid Rent by cheque	50	0	0
,, 31.	Paid Sundry Expenses out of Petty Cash .	3	0	0
,, 31.	Drew cheque for Salaries and paid £48. .	50	0	0
,, 31.	Bank have credited my account with interest £4, and charged me with commission £3.			

The Accountant's and Solicitor's charges can be charged one-half to the month of March and the other half to be carried forward for the month of April.

Enter the above items in the proper books, post to Ledger, and take out Trial Balance.

Credit Capital Account with interest £5, and write £8 off Fixtures and £5 off Office Furniture.

Part III.

From the foregoing, close the accounts, bring down the balances, make out Profit and Loss Account and Balance Sheet. On March 31 the stock amounted to £999 10*s.* 4*d.*

LANCASHIRE AND CHESHIRE INSTITUTES.

Advanced Grade, 1908.

[3 hours allowed.]

(*You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.*)

Part I.

1. In what respect, if any, does an Income and Expenditure Account differ from an Account of Receipts and Payments?

2. What do you understand by the term "Depreciation"? How does depreciation apply to Plant and Machinery, Leaseholds, and Goodwill?

3. Explain the terms "Minimum or Dead Rent," and "Royalty,"

as used in Mining. How would you deal with dead rent in the books of a Colliery Company?

4. What do you understand by "Account Current"? Make out such an account for Yeadon & Co. from the following—

1907.		
Jan.	1.	Sold Goods to Marshall & Co., £200, due March 1.
Feb.	1.	Received cash from Marshall & Co., £100.
Mar.	1.	Bought Goods from Marshall & Co., £500, due May 1.
April	1.	Paid Marshall & Co., £300.
May	1.	Bought Goods from Marshall & Co., £200.
June	30.	Sold Goods to Marshall & Co., £300.

Interest 5 per cent., the account to be made up to June 30, 1907.

5. In preparing accounts for the Surveyor of Taxes showing profits taxable under Schedule D, how would you deal with the undermentioned items?—

(*a*) Bank Interest,
(*b*) Defalcation by cashier,
(*c*) Depreciation of Land and Buildings,
(*d*) Fire Insurance,
(*e*) Partners' salaries,
(*f*) Interest on Capital,
(*g*) Rents from Cottage Property,
(*h*) Premium on Leasehold.

6. In closing the books of a Company whose accounts are made up to June 30 in each year, you find the following—

1. Poor and District Rates for the half-year ending September 30 next, £300, paid on June 1.
2. A number of invoices for goods amounting to £250. The goods were delivered on June 28, and were not included in the stocktaking at that date, and the invoices have not passed through the books on the ground that the goods are intended for use after June 30.
3. Rent, £1,000 per year, payable quarterly. Last rent paid up to April 30.
4. £600 expended in cost of issue of Debentures, repayable in five years from date of issue.
5. Expenditure of £1,000 on advertising new article called "Plato" introduced to the public.

How would you deal with the above-mentioned items in the books of the Company?

Part II.

The Silver Ore Company, Ltd., was formed on April 1, 1907, with an Authorized Capital of £60,000, divided into 30,000 Ordinary Shares of £1 each and 30,000 5 per cent. Cumulative Preference Shares of £1 each. The whole of the Ordinary Shares were issued and fully paid, but of the Cumulative Preference Shares 22,000 only were issued, and of these 21,900 were fully paid, but on the remaining 100 shares 15*s*. only had been paid. From the following Trial Balance prepare Balance Sheet, Trading Account, and Profit and Loss Account on April 1, 1908.

	Dr. £	s.	d.	Cr. £	s.	d.
Ordinary Share Capital				30,000	0	0
Preference Share Capital				21,975	0	0
Balance at Bank	10,550	0	0			
Crushing Plant and Machinery	4,000	0	0			
Cost to date of sinking Mine	2,000	0	0			
Land	20,000	0	0			
Expenses of promotion of Company	600	0	0			
Royalties paid	1,000	0	0			
Silver sold (cash)				17,000	0	0
Other minerals sold (including coal used by the Company)				950	0	0
Light Railway, cost	1,200	0	0			
Wages of miners, etc.	6,900	0	0			
Wagons	500	0	0			
Bank Interest				270	0	0
Advertising	500	0	0			
Carriage paid on crushing Plant and Machinery	180	0	0			
Erection of Sheds, etc.	1,500	0	0			
Legal Expenses	100	0	0			
Oil	200	0	0			
Repairs to Plant	90	0	0			
Coal bought	300	0	0			
Coal used from own Mines	150	0	0			
Office Furniture	150	0	0			
Salaries	2,000	0	0			
Interim preference dividend, paid Oct. 2, 1907, 5 per cent. per annum, less tax	521	18	2			
Cash in hand	53	1	10			
Directors' Fees	700	0	0			
Investment in Rosario Tin Mines, 2,000 Ordinary shares, £5 each, £4 paid	8,000	0	0			
Brokers' charges, etc., on same	100	0	0			
Dividend received thereon				320	0	0
Deposit Account at Bank, 3 per cent. per annum	8,900	0	0			
Interest received to December 31, 1907				120	0	0
Loose Tools	440	0	0			
	£70,635	0	0	£70,635	0	0

Depreciate Plant and Light Railway at 15 per cent. per annum. Wagons are valued at £400, and Loose Tools at £300. Promotion Expenses to be charged over a period of three years. Value of Silver on hand, £1,500. On December 21, 1907, the Directors decided to forfeit the 100 shares on which only 15*s.* has been paid up.

Part III.

Fred Jackson, on March 31, 1908, unable to meet his engagements, requires a Statement of Affairs for submission to his creditors, Prepare the same from the following—

	Book value.	Estimated. to realize.
Leasehold Premises held for 99 years, subject to a payment of ground rent £100 per year	£ 10,000	£ 9,000
Book Debts, Good	6,650	6,000
,, Doubtful	500	250
,, Bad	750	—
Fixed Plant and Machinery	4,000	3,000
Stock-in-trade	2,000	1,400

Cash in hand, £10. Life Insurance Policy for £2,500 at death, subject to a premium of £50 a year due and paid February 28, 1908, and held by Insurance Company for a loan of £200; Surrender value, £500. Household Furniture and Effects, £360. Private and Household Debts, £290. 600 Shares in Cooper & Co., Ltd., of £1 each, 10*s.* paid up, now quoted at 12*s.* 6*d.* per share. Loan of £5,000, secured by a first mortgage on the leasehold at 4½ per cent., the interest of same being paid to March 31, 1908. Unsecured Creditors, £15,000. Bankers for overdraft and interest, £5,000, holding as security a second mortgage on leasehold of £4,000. Loan from E. Taylor, £400, at 5 per cent. per annum, interest being paid to March 31, 1908, who holds as security second charge on life insurance policy. Ground Rent of leasehold accrued since December 31, 1907.

With the following additional information prepare a Deficiency Account—

On April 1, 1905, he had a capital of £12,000 in addition to household furniture. His private drawings, as shown in the Cash Book, were as follows—

	£	*s.*	*d.*
For the year ended March 31, 1906	4,905	0	0
,, ,, 1907	4,000	0	0
,, ,, 1908	5,000	0	0

He made a profit in his business in 1906 of £5,000, and in the subsequent years losses of £3,000 and £935 respectively.

LANCASHIRE AND CHESHIRE INSTITUTES.

JUNIOR GRADE, 1909.

[3 hours allowed.]

(*You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.*)

Part I.

1. What is the use of the Journal? Give two examples illustrating the class of items which can be passed through the Journal.

2. What is meant by "Consignment Account"? Albert Jones sends to Jamaica, on consignment account, goods of the value of £600. He also pays for freight and insurance charges £22. What books would these entries be passed through, and how?

3. What do you understand by a "Returns Book"? Make the ruling of such a book for a company who have a number of returns,

and whose business is divided into the three following departments: Woollens, cottons, silks.

4. William Robinson owes to you for goods sold to him on July 2, 1908, £275 16*s*. On July 6, 1908, he sends a Bill for £125 due on October 1, 1908, and also cash on account of the balance, £62 17*s*. 6*d*. On October 1, 1908, he fails to meet his Bill, and you pay for noting the dishonoured Bill, 1*s*. 6*d*. On December 31, 1908, you receive from his Trustee in Bankruptcy a first and final dividend of 6*s*. 8*d*. in the £. Show William Robinson's Ledger Account in your books.

5. What is meant by—

(*a*) Gross profit,
(*b*) Net profit?

A man's turnover for the year ending October 31, 1908, is £12,500, his gross profit is £2,500, his net profit is £750.

What is the rate per cent. on the turnover for gross profit and also for net profit?

6. You supply Mr. Lloyd Asquith with goods of the value of £550, and he gives you in payment a Bill of Exchange due on January 1, 1909. On November 1, 1908, you discount the Bill at the rate of 5 per cent. per annum. How much cash will you receive? and give the entry that you will make in your Cash Book on this date.

Part II.

7. On February 1, 1909, Henry Wood commenced business with the following assets: Cash in hand, £50 1*s*. 6*d*.; Cash at Bank, £864 7*s*. 6*d*.; Stock-in-trade, £560. William Jones owes him £162 1*s*. 3*d*.; James Slater owes him £124 2*s*. 6*d*. His liabilities are: John Jackson, £400 2*s*. 9*d*.; A. Wilson, £103 15*s*.; Webster & Co., £156 15*s*.

The transactions for the month of February were as follows—

			£	*s.*	*d.*
Feb.	1.	Sold Goods to Wm. Jones	80	10	0
,,	2.	Gave Bill to A. Wilson at 3 months in settlement of his account	101	0	0
,,	3.	Paid John Jackson on account (by cheque)	100	0	0
,,	4.	Drew from Bank for Petty Cash	10	0	0
,,	5.	Cash sales	125	0	0
,,	6.	Paid into Bank	150	0	0
,,	9.	Bought of Webster & Co., Goods	250	0	0
,,	11.	Received from Wm. Jones, Bill at 4 months, in full settlement of his account	236	0	0
,,	12.	Bought Office Furniture and Fittings (by cheque)	50	0	0
,,	13.	Henry Wood withdraws from Bank, for private purposes	180	0	0
,,	13.	Paid out of Petty Cash, Stamps and Sundry Expenses	3	0	0
,,	15.	Sold Goods to Jas. Slater	200	0	0
,,	17.	Jas. Slater returns Goods as being inferior to sample	20	0	0
,,	19.	Paid Webster & Co. by cheque £300, and received Discount, £7 10*s*.	307	10	0
,,	23.	Paid John Jackson on account, by cheque, £100, and received Discount, £5.	105	0	0
,,	28.	Received Rent from sub-tenant	6	0	0

			£	s.	d.
Feb.	28.	Drew cheque for Wages . . . . . . And paid £57.	60	0	0
,,	28.	Rent *due* to Landlord	36	0	0
,,	28.	Credit Capital with Interest, £6 10s.			
,,	28.	Depreciate Office Furniture, £4.			

Enter the above items in the proper books, post to Ledger, and take out Trial Balance.

Part III.

8. From the foregoing, close the accounts, bring down the balances, make out Profit and Loss Account and Balance Sheet. On February 28 the Stock amounted to £484 10s.

LANCASHIRE AND CHESHIRE INSTITUTES.

Senior Grade, 1909.

[3 hours allowed.]

(*You must first attempt not more than four of the questions in Part I, and afterwards attempt the Statements of Account in Parts II and III of this grade.*)

Part I.

9. What is the meaning of (*a*) forfeited shares, (*b*) premium on shares? How are they dealt with in a company's accounts?

10. Having before you the Profit and Loss Account of a manufacturing business, what points would require attention in adjusting it for the purpose of submission for Income Tax assessment?

11. What is a sinking fund? Give an example, with imaginary figures.

12. Define an "Account Current," and make out such an account for Alfred Brown in respect of the following transactions with Charles Dawson—

1908.		
Jan.	17.	Goods sold to Charles Dawson, £200, due February 1.
Feb.	1.	Received cash from Charles Dawson, £50.
Mar.	18.	Goods bought of Charles Dawson, £300, due April 1.
April	1.	Paid to Charles Dawson, cash, £200.
May	1.	Goods bought of Charles Dawson, £150.
,,	10.	Goods sold to Charles Dawson, £120, due June 1.

The account to be made up to June 1, 1908, interest to be at 6 per cent. per annum, which may be calculated by months instead of days.

13. Explain, as applied to the Balance Sheet of a Joint Stock Company, the following—

(*a*) Capital Authorized,
(*b*) Calls in Arrear,
(*c*) Mortgage Debentures,
(*d*) Preliminary Expenses.

On which side of the Balance Sheet would they appear?

14. How should the figures be shown in a company's Balance Sheet in both the following cases—

(*a*) A company issues £40,000 4 per cent. Mortgage Debentures at 95 per cent.

(*b*) A company issues £40,000 4 per cent. Mortgage Debentures at par,

and undertakes to redeem them at the end of ten years at £105.

Part II.

15. The secretary of the Cheshire Manufacturing Company, Ltd., takes out his balances on December 31, 1908, and submits to you the following particulars, from which prepare Trading Account, Profit and Loss Account, and Balance Sheet—

Nominal Capital, £150,000, divided into 5,000 Preference Shares of £10 each, and 10,000 Ordinary Shares of £10 each.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
5,000 Preference Shares, £10 each, £2 paid				10,000	0	0
10,000 Ordinary Shares, £10 each, £5 called up				50,000	0	0
150 5 per cent. Mortgage Debentures of £100 each, issued at 95				15,000	0	0
Cost of issue of Debentures	750	0	0			
Purchases	43,249	0	0			
Land and Buildings	25,100	0	0			
Fuel	570	0	0			
Plant and Machinery	5,620	0	0			
Repairs	445	0	0			
Loose Tools, Jan. 1, 1908	1,752	0	0			
Office Expenses	363	0	0			
Sales				53,847	0	0
Wages	9,371	0	0			
Discounts received				324	0	0
Discounts allowed	517	0	0			
Salaries	975	0	0			
Bad Debts	275	0	0			
Postage, etc.	86	0	0			
Rates, Taxes, and Insurance	524	0	0			
Travelling Expenses	302	0	0			
Interest and Bank Charges	75	0	0			
Directors' Fees	550	0	0			
Stock, Jan. 1, 1908	11,420	0	0			
Sundry Debtors	24,300	0	0			
Sundry Creditors				9,160	0	0
Carriage inwards	220	0	0			
Goodwill	10,000	0	0			
Carriage outwards	410	0	0			
Debenture Interest paid	375	0	0			
Profit and Loss Account, balance of loss brought forward from last account	2,243	0	0			
Unpaid Calls, Ordinary Shares	250	0	0			
Bank Overdraft				1,525	0	0
Cash in hand	114	0	0			
	£139,856	0	0	£139,856	0	0

Reserve for Debenture Interest, £375.

Reserve for Wages, £50.

Provide for Bad Debts, £400; Insurance prepaid, £21.

Depreciate Land and Buildings 1 per cent., and Plant and Machinery 10 per cent.

Reserve for Discounts, 5 per cent. on Sundry Debtors and 2½ per cent. on Sundry Creditors. Stock at December 31, 1908, £18,763.

Value of Loose Tools at December 31, 1908, £2,000.

Part III.

16. Arthur Arnott, Ben Barber, and Charles Corson carried on business in co-partnership as Corn Millers, at Salford. On October 1, 1907, their capital was £8,000, £5,000, and £2,000 respectively. By the deed of partnership each partner was to have 5 per cent. interest on his money, and a salary of £250 per annum. The only amount drawn out of the business by each partner during the year was the amount of his salary.

Before taking into account any interest on partners' capital, or partners' salaries, the profit of the business for the year ended September 30, 1908, was £2,070. Profits were divided in the proportion of 3, 2, 1, respectively.

Prepare Profit and Loss Account and open Partners' Capital Accounts, showing each partner's position on September 30, 1908.

NATIONAL UNION OF TEACHERS EXAMINATIONS.

Elementary, 1909.

[3 hours allowed.]

(*You may answer all the questions.*)

1. Give the meanings of the following: Account, Commission, Posting, Solvent, Sterling, Voucher.

2. Rule a model Sales Book, and enter two of the following items to each of two names (and dates) of your own choice : 6 gross buttons, at 5*d.* per doz. ; 20 yds. silk, at 10*s.* 6*d.* per yd. ; 5 doz. hats, at 2*s.* 6*d.* each ; 90 ties, at 21*s.* per doz.

3. Each day, from Monday to Saturday (six days), a costermonger bought 17*s.* 6*d.* worth of fruit. His takings were 23*s.* daily. On Saturday night he reckoned he had 2*s.* 6*d.* worth of fruit left. Make out an account, showing his profit for the week.

Exercise.

On January 1, 1909, the state of Francis Fair's business was as follows: Cash in hand, £365; Goods on hand, £420.

Debtors: B. Best, £115; D. Dean, £80; K. Kew, £315. Creditors: L. Lord, £205; Y. Young, £90.

You are requested to find and credit his Capital. Then enter the transactions given below in suitable books, post them to the Ledger, draw out a Trial Balance, balance the Accounts, and make out a Profit and Loss Account and Balance Sheet.

1909.				£ s. d.
Jan.	1.	Paid Rent		25 0 0
,,	2.	Received of K. Kew . .	£197 10 0	
		Discount in addition .	2 10 0	
				200 0 0

1909.				£	s.	d.
Jan.	4.	Paid Water Rate		5	5	0
,,	6.	Sales to K. Kew		120	15	6
,,	7.	Received cash for a Bad Debt written off last year		24	12	8
,,	8.	Bought Goods of L. Lord		65	10	6
,,	9.	Received cash of B. Best		102	12	6
		Wrote off the balance of his debt as bad		12	7	6
,,	11.	Cash Sales		90	3	4
,,	12.	Cash Purchases		70	13	4
,,	13.	Received cash of K. Kew	£113 12 6			
		Discount in addition	1 7 6			
				115	0	0
,,	14.	Paid L. Lord, cash	£146 5 0			
		Discount in addition	3 15 0			
				150	0	0
,,	15.	K. Kew bought Goods		32	8	4
,,	16.	Paid Wages		8	15	0
,,	18.	Y. Young purchased Goods		35	7	6
,,	19.	D. Dean paid me	£78 8 0			
		Discount in addition	1 12 0			
				80	0	0
,,	20.	Purchases from N. Nash		136	10	0
,,	21.	Paid Y. Young, cash	£53 0 0			
		Discount in addition	1 12 6			
				54	12	6
,,	22.	Sales to D. Dean		120	13	4
,,	23.	Paid Wages		8	15	0
,,	25.	Paid L. Lord, cash	£53 12 6			
		Discount in addition	1 7 6			
				55	0	0
,,	26.	D. Dean bought Goods		24	16	8
,,	27.	Paid to N. Nash, cash	£35 0 0			
		Discount in addition	1 10 0			
				36	10	0
,,	28.	Y. Young sold me Goods		85	10	9
,,	29.	Drew cash for Self		25	0	0
,,	30.	Paid Salaries		35	0	0
,,	30.	Interest on Capital		4	3	4
,,	30.	Stock on hand		495	0	0

NATIONAL UNION OF TEACHERS EXAMINATIONS.

Intermediate, 1909.

[3 hours allowed.]

1. Describe briefly the Imprest System of Petty Cash.

2. During the week a costermonger invested £5 in fruit and 10*s.* in paper bags. He paid the boy who helped him 7*s.*, and the hire of his barrow cost him 3*s.* 6*d.* On Saturday night he found his takings amounted to £8, and he reckoned he had 1*s.* 6*d.* worth of bags and 5*s.* worth of fruit left.

Make out an account showing his profit for the week.

3. Explain : Bonded Goods, Del Credere, Rebate, Scrip, P.P.I., A/s.

EXERCISE.

The affairs of Arthur Abel, Contractor, stood as follows on January 1, 1909—

Assets: Cash in Office, £30; Cash at Bank, £900.
Bills Receivable: No. 1, £200; No. 2, £240.
Benjamin Binns, £720; Expenditure on Contract 10, £2,160; Expenditure on Contract 11, £4,800; Freehold Premises, £7,500; Horses and Carts, £1,100; Stock of Materials, £3,000.
Liabilities: Bills Payable, No. 20, £150; No. 21, £250; Charles Cain, £350; Instalments received on Contract 10, £1,200; Instalments received on Contract 11, £3,600.

His transactions for the month are given below. You are requested to enter them in the proper books, post them to the Ledger, make out a Trial Balance, Profit and Loss Account, and Balance Sheet. Closing entries should be passed through the Journal. All payments, unless otherwise stated, are made by cheque; all receipts are paid into the Bank same day.

1909.			£	s.	d.
Jan.	1.	Received cheque for Bill No. 1	198	10	0
		Rebate allowed	1	10	0
,,	1.	Signed Contract 12 to restore St. John's Church for	4,000	0	0
,,	2.	Bought of Charles Cain Bricks value	530	10	6
		Paid him cheque	350	0	0
		And Acceptance at 3 months	300	0	0
,,	4.	Paid for two new Horses	75	0	0
,,	4.	Paid for Postage, etc.—Office Cash	2	12	6
,,	5.	Received Instalment on Contract 11	615	0	0
,,	6.	Paid Wages—Contract 10	155	15	0
		,, ,, Contract 11	90	5	0
,,	7.	Materials supplied to Contract 10	365	10	0
		,, ,, Contract 11	550	10	0
		,, ,, Contract 12	240	15	0
,,	8.	Retired Acceptance No. 20 for cheque	148	12	6
		And Rebate	1	7	6
,,	9.	Bought Tiles of Chas. Cain for two months' Bill	230	17	6
,,	11.	Received cheque from Benjamin Binns	411	12	0
		Discount in addition	8	8	0
,,	11.	Paid for Repairs to Carts	10	5	6
,,	12.	Bill Receivable No. 2, Frank Fox, £240, due this day, returned dishonoured. Noting Expenses—Office Cash	0	12	6
,,	13.	Retired Acceptance No. 21, cheque	247	10	0
		Rebate allowed	2	10	0
,,	14.	Arthur Abel's Drawings	45	0	0
,,	14.	Charge Benjamin Binns for repairing his roof	12	2	6
,,	15.	Bought Cement of Chas. Cain	290	10	6
,,	16.	Paid Wages—Contract 10	60	0	0
,,	16.	,, ,, Contract 11	100	14	6
,,	16.	,, ,, Contract 12	45	7	6
,,	16.	,, ,, Yard Watchman—Office Cash	1	15	6
,,	18.	Materials supplied to Contract 10.	605	0	0
,,	19.	Received Instalment Contract 10.	720	0	0

1909.		£	s.	d.
Jan. 20.	Paid for Water to Contract 11 . . .	5	10	0
,, 20.	Materials supplied to Contract 12 . .	175	2	6
,, 21.	Wrote off value of a Horse killed in street .	35	0	0
,, 22.	Received of Edward Easton for Cartage .	20	5	9
,, 23.	Contract 10 completed and passed. Final Instalment received	2,400	0	0
,, 25.	Contract 11 completed. Balance due . .	1,200	0	0
,, 26.	Received Instalment on Contract 12 . .	150	0	0
,, 27.	Received cheque for Frank Fox's dishonoured Bill and Noting Expenses.			
,, 28.	Received Instalment on Contract 11 . .	600	0	0
,, 30.	Paid Salaries	80	0	0
,, 31.	Interest on Capital	54	0	0
,, 31.	Depreciation of Premises	10	0	0
,, 31.	Stock of Materials on hand	2,200	0	0

NATIONAL UNION OF TEACHERS EXAMINATIONS.

Advanced, 1909.

[3 hours allowed.]

1. On account of heavy losses the Directors of a Limited Company obtain power to reduce the Capital from 100,000 Shares of £1 each, ten shillings per share paid up, to 100,000 Shares of five shillings each, fully paid.

State what entries in the financial books are necessary to give effect to this.

2. Explain: Assignee, Bond to Bearer, Cheap Money, Corpus, Drawback, Lloyds Bond.

3. The Golden Hill Company, Ltd., has a balance of £18,000 to the credit of Profit and Loss Account on December 31, 1908. On February 1, 1909, it was resolved to appropriate the amount as follows—

£3,600 to Reserve Fund.
Dividend of 10 per cent. (less Income Tax, 1*s.* in the £) on 10,000 Preference Shares of £5 each, fully paid.
Dividend of 15 per cent. (free of Income Tax) on 10,000 Ordinary Shares of £5 each, fully paid, and carry the balance forward.

You are requested to make out (1) Profit and Loss Appropriation Account, (2) Dividend Account, (3) Income Tax Account, and (4) Reserve Fund Account.

4. On January 1, 1909, the Directors of a Company pass a resolution forfeiting 100 Ordinary Shares of £1 each, upon which a deposit of 2*s.* 6*d.* per share has been paid, but upon which 7*s.* 6*d.* due on allotment and a further call of 5*s.* per share remain unpaid. On the same date they re-issue the shares to James Brown, credited with 15*s.* per share paid up, for £70.

Show in Journal form the necessary entries in the financial books of the Company.

5. **The Trent Valley Water Company.**

TRIAL BALANCE, *December* 31, 1908.

	£	s.	d.	£	s.	d.
60,000 Ordinary Shares of £1 each, fully paid				60,000	0	0
20,000 Preference Shares of £1 each, fully paid, 6 per cent.				20,000	0	0
Debenture Stock, 5 per cent.				20,000	0	0
Premiums on Shares				20,000	0	0
Expended on Purchase of Land	3,000	0	0			
Expended on Construction of Works	102,330	0	0			
Expended on Mains and Service Pipes	11,920	0	0			
Expended on Meters	1,050	0	0			
Expended on Parliamentary Expenses	2,000	0	0			
Sundry Debtors	48	0	0			
Sundry Creditors				841	0	0
Reserve Fund				258	0	0
Sundry Debtors for Water Rates due	1,242	0	0			
Stores on hand	340	0	0			
Investments—National War Loan Stock, at par	250	0	0			
Cash in hand	60	0	0			
Cash at Bank	3,353	0	0			
Salaries	600	0	0			
Printing	50	0	0			
Incidental Expenses	37	0	0			
Maintenance of Pumping Stations	1,705	0	0			
Maintenance of Reservoirs	500	0	0			
Maintenance of Filter Beds	150	0	0			
Repairs to Mains	220	0	0			
General Repairs	155	0	0			
Directors' Fees	400	0	0			
Auditors' Fees	50	0	0			
Rates and Taxes	2,500	0	0			
Interest on Debenture Stock to date	1,000	0	0			
Dividends on Preference Shares to date	1,200	0	0			
Interim Dividend on Ordinary Shares, Aug. 1, 1908	3,000	0	0			
Water Rents				14,667	0	0
General Rents				350	0	0
Transfer Fees				24	0	0
Unclaimed Dividends				20	0	0
Balance of net Revenue Account, Jan. 1, 1908				1,000	0	0
	£137,160	0	0	£137,160	0	0

The Reserve Fund is to be raised to £500, and National War Loan Stock increased to a like amount at par, to be known in future as Reserve Fund Investments.

You are requested to make out: (1) Capital Account, (2) Revenue Account, (3) Net Revenue Account, (4) Reserve Fund Account, and (5) General Balance Sheet.

6. From the following particulars prepare a Statement of Affairs and Deficiency Account as on December 31, 1908, for the information of the Creditors of Black and White, who are insolvent. Cash in hand, £200. Book Debts: Good, £2,000; Doubtful, £300 (estimated to produce £100); Bad, £500. Stock in trade valued at £1,900. Freehold Property cost £3,000, estimated to produce £2,500; this property is assigned to creditors for £2,300. Shares held, £150; these are given as security for a debt of £400. Creditors: Unsecured on open account, £5,000; on Bills Payable, £1,000. Partially secured by shares, £400. Fully secured on Freehold Property, £2,300. Preferable claims for Taxes, Wages, and Salaries, £100. Black's drawings, £2,000; White's drawings, £2,850. The business commenced on January 1, 1906. Black put into it £2,500, and White £2,900. The first year showed a profit of £3,000, but the next two years showed a loss of £4,300. No provision was made for Bad Debts.

THE AUCTIONEERS' INSTITUTE OF THE UNITED KINGDOM.

Preliminary, 1908.

[2 hours allowed.]

1. Explain the terms (*a*) Nominal Account, (*b*) Personal Account (*c*) Real Account.

2. Write out the form of a cheque for £120, drawn January 1, 1908, on the Commercial Bank, Ltd., 21, Broadway, Liverpool, and cross it

Drawer—J. Ford.	"The Traders' Bank, Ltd."
Payee—T. Ray.	"Moorgate Street, E.C."

3. Make out T. Reed's account, and say whether he is my Debtor or my Creditor.

1898.			£	s.	d.
Dec.	1.	I owe T. Reed	257	0	0
,,	3.	Bought Goods of T. Reed	100	0	0
,,	4.	Returned Goods (damaged) to him	2	0	0
,,	6.	Paid him cash on account	100	0	0
,,	10.	He sells me Goods	165	0	0
,,	12.	He buys Goods of me	240	0	0
,,	18.	I sell him Goods	160	0	0
,,	23.	I pay him a cheque	130	0	0
,,	26.	He sells me Goods for cash	80	0	0
,,	28.	I buy Goods of him	75	0	0
,,	30.	I sell him Goods for cash	43	0	0

4. **Make out a Cash Account—**

1907.			£	s.	d.
Jan.	1.	Commenced Business with a Capital in cash	800	0	0
,,	4.	Paid J. Reed for Office Furniture	80	0	0
,,	7.	Bought Goods for cash	160	0	0
,,	9.	Sold Goods to F. Moore for cash	185	0	0
,,	12.	Advanced to Petty Cash	15	0	0
,,	18.	Paid Wages	4	0	0
,,	21.	Paid for Cottages bought this day	200	0	0
,,	24.	Paid Fire Insurance Premium	2	0	0
,,	25.	Received of L. Green	65	0	0
,,	26.	Received of T. Lewis	150	0	0
,,	28.	Paid R. Thomas	15	0	0
,,	28.	I receive from T. Judd	25	0	0
,,	30.	I receive Rent from Cottages	0	17	6
,,	31.	I pay 1 month's Rent	7	10	0
,,	31.	I pay Wages	2	0	0

5. The following are the balances of accounts in my Ledger, without considering the Capital Account. From them make out a Balance Sheet, and show what is the amount of my capital.

	£	s.	d.
Dr. Balances—			
Stock	500	0	0
Bills Receivable	640	0	0
Bank	450	0	0
Cash	57	0	0
T. Reed	45	0	0
J. Roberts	87	0	0
F. Walker	23	0	0
Cr. Balances—			
Bills Payable	415	0	0
F. Wilson	237	0	0
J. Atkinson	325	0	0
C. Crow	257	0	0
Loan	150	0	0

6. The following are the figures for 1907—

		Tobacco.	£			Cigars.	£
Jan.	1.	Stock	800	Jan.	1.	Stock	435
Dec.	31.	Cr. Sales	1,900	Dec.	31.	Cr. Purchases	830
,,	31.	Cr. Purchases	2,400	,,	31.	Cr. Sales	1,250
,,	31.	Cash Sales	800	,,	31.	Cash Sales	100
,,	31.	Cash Purchases	240	,,	31.	Cash Purchases	245
,,	31.	Stock	1,500	,,	31.	Stock	400

		Cigarettes.	£
Jan.	1.	Stock	435
Dec.	31.	Cash Purchases	237
,,	31.	Cash Sales	320
,,	31.	Cr. Purchases	447
,,	31.	Cr. Sales	340
,,	31.	Stock	440

Compile the accounts, and carry the balances to a Profit and Loss Account.

THE AUCTIONEERS' INSTITUTE OF THE UNITED KINGDOM.

INTERMEDIATE, 1908.

[2 hours allowed.]

1. An auctioneer is agent for a Fire Insurance Company, and his quarterly list of Premiums to Christmas amounts to £60. He collects £50 from these customers in respect of this amount, and the remainder allow their insurances to lapse. During the quarter he effects fresh insurances, the premiums on which come to £25. He closes his quarterly account with the Company by remitting the balances after deducting 15 per cent. on the new business and 5 per cent. on renewals. Show the Company's account in the Agent's Ledger.

2. State the books of account you would consider necessary to properly record the transactions of a moderate-sized auctioneer's and surveyor's business, stating briefly the nature of the entries which would go in each.

3. John Smith & Co. owed you on January 1 £125. On January 10 they send you their Acceptance for this amount due July 10. On January 15 you passed this Acceptance on to Arthur Robinson on account of an amount of £200 due from you to him, and he charges you £2 10*s*. interest for taking a Bill instead of cash. On March 31 you send Robinson a cheque for £77 10*s*. to balance his account. On July 14 you receive notice from Robinson that John Smith & Co.'s Acceptance has been dishonoured, and you send him a cheque to take it up. He then returns the Bill to you. John Smith & Co. become bankrupt, and on November 30 you receive a first and final dividend of 6*s*. 8*d*. in the pound, the balance becoming a bad debt. Open Ledger Accounts showing the above transactions.

4. At the close of a trader's financial year the following items have not been posted—

(1) In Purchases Journal, the total of Goods bought from creditors;
(2) In Returns Outwards Book, the total of Goods returned to creditors;
(3) In Returns Inwards Book, the total amount of Goods returned by customers;
(4) In Cash Book, the total Discounts allowed and total Discounts received.

How would you deal with the above in order to close off the books and get out a Trial Balance? You also find that the Bank Pass Book shows a balance of £559 4*s*. 6*d*., while that on the Cash Book is only £472 3*s*. 2d., owing to cheques drawn not having been presented. Which is the correct figure to take in your Trial Balance, and why?

4. The following is a Trial Balance of the business of A. B., an auctioneer, for the year ended December 31, 1907. Prepare his Profit and Loss Account and Balance Sheet.

TRIAL BALANCE, *December* 31, 1907.

	£	s.	d.	£	s.	d.
Cash at Bank	388	18	7			
Cash in hand	25	6	9			
Office Salaries	496	7	6			
Commissions earned				542	6	8
Furniture and Fittings in Office	220	0	0			
A. B., Drawings for year	450	0	0			
A. B., Capital, Jan. 1, 1907				750	0	0
Valuation and Survey Fees				432	2	2
Agency Fees				492	3	4
Rent, Rates, etc.	202	6	4			
Rent, Rates, etc., owing				75	0	0
Stationery and Printing	126	2	1			
Postage and Telegrams	63	0	9			
Office Expenses	75	9	6			
Sundry Debtors	876	4	8			
Sundry Creditors				632	4	0
	£2,923	16	2	£2,923	16	2

6. Describe briefly what is meant by "Double Entry" book-keeping. What do you understand by a "Journal," and how does an ordinary Journal differ from a "Sales Journal" and a "Purchases Journal"? Give a ruling (with one specimen entry) for each.

THE AUCTIONEERS' INSTITUTE OF THE UNITED KINGDOM.

PRELIMINARY, 1909.

[2 hours allowed.]

1. Explain clearly the difference between Cash and Capital, and show by an intelligent statement that I may have £1,000 cash in my business and yet be worth only £100.

2. Into what principal classes are accounts divided? Give the names of those classes and two examples of Ledger headings (names of accounts) under each.

3. From the following Transactions compile a Cash Account—

1908.			£	s.	d.
Jan.	1.	Commenced business with cash	1,000	0	0
,,	4.	Borrowed from the Security Bank	500	0	0
,,	6.	Bought Goods for cash	460	0	0
,,	8.	Bought Goods of West & Co.	245	0	0
,,	10.	Sold Goods for cash	525	0	0
,,	15.	Paid West & Co., on account	200	0	0
,,	21.	Paid into Security Bank for my credit	1,200	0	0
,,	22.	H. Green sells me Goods	150	0	0
,,	24.	I sell J. Ford Goods	170	0	0
,,	26.	J. Ford pays his account, less Discount, £8 10s.	161	10	0
,,	28.	Paid H. Green	150	0	0
,,	31.	Paid for Rent	50	0	0
,,	31.	Paid for Wages	35	0	0
,,	31.	Paid for Trade Expenses	15	0	0

4. Make out F. Walker's account as it would appear in your Ledger, and show the first entry for the month of July, supposing that monthly balances were taken.

1908.			£	s.	d.
Jan.	1.	Mr. Walker owes me	500	10	6
,,	3.	I sell him Goods	55	0	4
,,	4.	He buys Goods of me	73	5	2
,,	6.	I sell him Goods	394	3	0
,,	9.	He pays me	22	19	0
,,	10.	I buy Goods of him	420	0	0
,,	11.	I return Goods to him	3	0	0
,,	16.	He sells me Goods	90	0	0
,,	21.	He pays me	400	0	0
,,	28.	I sell him Goods	77	1	0
,,	31.	I receive cash from him	67	1	0

5. T. Wood commences business as a Coal Merchant on January 1, 1908, with a Capital in cash of £1,200.

			£	s.	d.
His Gross Profits are:—	Mar.	31	142	0	0
	June	30	105	0	0
	Sept.	30	75	0	0
	Dec.	31	160	0	0
His Trade Expenses are:—	Mar.	31	35	0	0
	June	30	43	0	0
	Sept.	30	28	0	0
	Dec.	31	65	0	0
On December 31, 1908, J. Ford owes him			75	0	0
and he has Cash in hand			1,236	0	0
and Stock of Coal			200	0	0

Make out a Profit and Loss Account and a Balance Sheet.

6. Show how the items in the following Balance Sheet would appear in the Ledger.

H. FRAZER.

Balance Sheet at December 31, 1908.

LIABILITIES.	£	ASSETS.		£
Loan from Bank	1,500	Cash—		
Sundry Creditors	750	At Bank	£1,200	
Capital	2,500	In hand	70	
				1,270
		House Property		430
		Stock		1,500
		Sundry Debtors		1,550
	£4,750			£4,750

THE AUCTIONEERS' INSTITUTE OF THE UNITED KINGDOM.

INTERMEDIATE, 1909.

[2 hours allowed.]

1. Define "Account Sales," "Debenture," "Goodwill," "Gross Profit," "Net Profit," "Sinking Fund."

2. From the following Trial Balance of a merchant's business

for the year ending December 31, 1908, prepare his Trading Account, Profit and Loss Account, and Balance Sheet. Allow 5 per cent. per annum interest on Capital, write £50 depreciation from Lease, and 10 per cent. from Furniture and Fittings. The Stock, December 31, 1908, was £1,292 8*s*. 10*d*.

TRIAL BALANCE, *December* 31, 1908.

	£	*s.*	*d.*	£	*s.*	*d.*
A. W. Brown, Capital, Jan. 1, 1908				2,500	0	0
Rent, Taxes, etc.	359	12	7			
Wages	2,292	4	3			
Goods purchased	3,427	6	2			
Goods sold				7,983	7	6
Salaries (office)	429	8	4			
Stock, Jan. 1, 1908	1,572	3	2			
Furniture and Fittings	200	0	0			
Postage, Stationery, etc.	132	10	0			
Discounts allowed	69	7	6			
Cash at Bank	796	3	4			
Cash in hand	10	3	3			
A. W. Brown, Drawings	564	0	0			
Sundry Debtors	810	0	2			
Sundry Creditors				1,033	13	3
Bad Debts	54	2	0			
Lease, valued at	800	0	0			
	£11,517	0	9	£11,517	0	9

3. Describe briefly the duties of an auction clerk at a sale, stating what books he would use and the entries to be made therein at the time, and also the entries afterwards to be made therefrom in the office books in order that the results of the sale and any outstanding items may be completely recorded.

4. On January 1, 1909, Jones sells Goods to Brown of the value of £100. On January 15, Brown sends Jones a cheque for £95, deducting 5 per cent. discount for prompt payment. On January 18 Brown's cheque is returned dishonoured. Jones then agrees to accept a Bill at 3 months for £102 10*s*. in settlement of the amount due, which he pays into his bank for collection. On maturity the Bill is dishonoured and the bank debit it back to Jones, together with 2*s*. 6*d*. notarial charges. In the mean time Brown has gone bankrupt, and his estate only realizes 10*s*. in the £, the balance becoming a bad debt.

Show by Ledger accounts the transactions as they would appear in Jones's books.

5. Rule a form of Petty Cash Book suitable for an auctioneer's office, where there are numerous payments for postages, travelling and office expenses, and also frequent payments for agreement stamps and other items which have to be charged up to clients' Ledger accounts. Give four specimen entries.

6. In an ordinary trader's business, where his books consisted of a Cash Book, Petty Cash Book, Purchases Journal, Sales Journal, Sales Ledger, Bought Ledger, and Private Ledger, how would you set to work to get out a Trial Balance, Profit and Loss Account and Balance Sheet at the end of the year, and close off the books? Also how would you treat the Stock in hand at the beginning and end of the year respectively in the Trial Balance?

INSTITUTE OF BANKERS.

PRELIMINARY PAPER, April 1907.

NOTE.—*Seven* only out of the following *ten* questions are to be attempted. The number of marks assigned to each question is given in brackets at the end of the same.

DEFINITION AND GENERAL PRINCIPLES.

1. Give the rulings of a Cash Book where all the moneys received are banked and all the payments made are by cheque. In the rulings, set out "*Discounts and Allowances Columns*," "*debit*" and "*credit*," and show on the Double Entry System how these are dealt with. Make three entries on each side, elucidating the foregoing. [13 marks.]

2. Post the following entries into the Ledger, creating Ledger accounts "*Dr.* and *Cr.*" for each entry—

Goods Bought—
1. From John Jones, Steel Rails, £1,000.
2. From William Smith, Bolts and Nuts, £1,500.
3. From John Richardson, Steel Rails, £1,400.

Goods Sold—
4. To Great Northern Railway, Steel Rails, £2,000.
5. ,, ,, Bolts and Nuts, £500.
6. To Midland Railway, Bolts and Nuts, £600.

Take out a Trial Balance of the above Ledger accounts. [20 marks.]

3. Explain the difference between a "*Trial Ledger Balance*" and a "*Balance Sheet*," and state on which side the "*debit*" and "*credit*" accounts as taken from the Ledger are respectively shown in each of the above. [13 marks.]

4. Give four detailed *Journal entries* explaining the fundamental axiom in book-keeping that "*Every debit requires a credit*," and *vice versa*. [13 marks.]

5. Give, in a short sentence of, say, eight words or so, your definition of "*Capital*," as more particularly applying to an Individual or a Private Firm, rather than to a Joint Stock Company. [13 marks.]

6. Name the three principal books of account into two of which books initial entries are made and thence posted into the third book, giving the names of the first two books and the third book respectively. [10 marks.]

7. State into which of the following books of accounts: Cash Book, Petty Cash Book, Journal, Sales Day Book, Bought Day Book, Returns Inwards Book, Returns Outwards Book, entries *a* to *k* (as under) are to be made, preparatory to being posted into the Ledger—

(*a*) Purchased of John Smith Goods value £1,000.
(*b*) Sold to Arthur Brown Goods value £75.
(*c*) Returned John Smith Goods not up to sample, value £200.
(*d*) Arthur Brown returns Goods not up to sample, value £25.
(*e*) Pay John Smith, cheque in settlement of account, £780, he allowing £20 for $2\frac{1}{2}$ per cent. Discount.
(*f*) Receive in settlement of account, from Arthur Brown, £48 15*s*., he deducting £1 5*s*. for $2\frac{1}{2}$ per cent. Discount.

(*g*) Adjust a complicated account with Adam Bede by various cross entries.
(*h*) Purchase at the Stores various office requirements, value 19*s.* 5*d.*
(*j*) Receive Dividend on Bank Stock for £67 10*s.* 9*d.*
(*k*) Enter Banker's charge for new Cheque Book, 16*s.* 8*d.*

[20 marks.]

8. Messrs. L. S. D., Bankers, head their Pass Book—

"Arthur Brown, Esq., in account with L. S. D."

while Messrs. Bullion & Co., Bankers, head theirs—

"Bullion & Co., in account with Arthur Brown, Esq."

Draw up two Bank Pass Books making the following cash entries in each of these respective Bank Pass Books—

1907.			£	s.	d.
Jan.	1.	Cash balance in favour of Arthur Brown .	217	10	6
,,	4.	Paid Arthur Brown's cheque, No. 175 . .	52	10	0
,,	4.	Paid his Subscription to the Omnium Club .	10	10	0
,,	5.	Received his Dividend on Consols	95	0	0

[15 marks.]

9. Explain the difference between *Single Entry* and *Double Entry*, and the advantages of the latter over the former system of Book-keeping. [13 marks.]

10. Define the terms "*Depreciation*" and "*Reserve*," and state how they would respectively be shown on the Balance Sheet.

[13 marks.]

INSTITUTE OF BANKERS.

FINAL PAPER, April 1907.

NOTE.—*Seven* only out of the following *ten* questions are to be attempted. The number of marks assigned to each question is given in brackets at the end of the same.

DOUBLE ENTRY: ELUCIDATION AND EXPLANATION.

1. The following are Mr. Edward Brown's final Ledger balances at December 31, 1906—

HEADING OF LEDGER ACCOUNT.	Ledger Debits.			Ledger Credits.		
	£	s.	d.	£	s.	d.
Stock at January 1, 1906	3,200	0	0			
Note.—Stock at Dec. 31, 1906, is £3,300.						
Salaries	500	0	0			
Creditors on Bills Payable . .				6,097	0	0
Cash at Bank and in hand . .	2,775	0	0			
Creditors on Open Account . .				6,053	0	0
Debtors on Bills Receivable . .	8,550	0	0			
Purchases during the year . .	35,070	0	0			
Rents and Rates	201	0	0			
Creditors on Mortgage Account, Freehold Premises				4,000	0	0
Miscellaneous Office Disbursements .	257	0	0			
Debtors on Open Account . . .	7,600	0	0			
Wages	1,630	0	0			

	Ledger Debits. £	s.	d.	Ledger Credits. £	s.	d.
Discounts and Allowances. Balance to the debit	110	0	0			
Reserve for Bad and Doubtful Debts on Debtors' B/R, and Open Account, £375.						
Sales during the year				46,700	0	0
Plant and Machinery	5,000	0	0			
Goodwill of Business	2,000	0	0			
Write off £1,000 for Depreciation (say on Plant and Machinery £500, and on Goodwill £500).						
Repairs and Alterations	157	0	0			
Freehold Premises, subject to Mortgage, £4,000	6,000	0	0			
John Brown, Drawings Account—Drawings during the year	4,600	0	0			
Interest	200	0	0			
John Brown, Capital Account				15,000	0	0
	£77,850	0	0	£77,850	0	0

From the above Ledger balances draw up a Trading Account, a Profit and Loss Account, and a Balance Sheet, dealing in the respective accounts with the following three insets, viz. "*Stock at December* 31, 1906, £3,300," "*Reserve for Bad and Doubtful Debts*, £375," and "*Depreciation*, £1,000," also transferring net profit for the year to "*John Brown, Drawings Account.*" [20 marks.]

2. Explain the meaning of the term

"*Marshalling the Assets and Liabilities*"

in a Balance Sheet, and, at the same time, explain the advantage of the same. [10 marks.]

3. Ledger accounts consist of two categories—

1. Personal Accounts.
2. Impersonal Accounts (sub-divided into)
   (*a*) Real Accounts,
   (*b*) Nominal Accounts.

Allocate to the above the following twelve Ledger Accounts—

1. Creditors and Debtors on open Accounts.
2. Cash at Bank and in hand.
3. Stock.
4. Investments.
5. Wages.
6. Salaries.
7. Purchases and Sales.
8. Plant and Machinery.
9. Rent and Rates.
10. Dividends on Investments.
11. Freehold Premises.
12. Discounts and Allowances. [13 marks.]

4. The following are Arthur Brown's closing Ledger balances (Liabilities and Assets) at December 31, 1906, when he transfers the same to his son, William Brown. Make the Journal entries (not Sundries Dr. to Sundries) that William Brown requires to

make at January 1, 1907, to open his books of accounts, and at the same time draw up a Balance Sheet, duly marshalling the Liabilities and Assets in proper order, and showing what his Capital is at that date—

	£	s.	d.
Cash at Bankers	**235**	**0**	**0**
Loan from Bankers	**1,000**	**0**	**0**
Cash in hand (Petty Cash)	**15**	**0**	**0**
Creditors on Open Account	**500**	**0**	**0**
Debtors on Open Account	**1,000**	**0**	**0**
Bills Receivable	**750**	**0**	**0**
Stock of Goods in hand	**1,000**	**0**	**0**
Patents	**500**	**0**	**0**
Bills Payable	**250**	**0**	**0**
Implements and Plant	**1,000**	**0**	**0**
Reserve for Bad and Doubtful Debts and other contingency	**250**	**0**	**0**
Furniture and Fittings	**500**	**0**	**0**

[20 marks.]

5. Show on which side of the account the following items appear in a "*Trading Account*," a "*Profit and Loss Account*," and a "*Balance Sheet*," remembering that certain of these items appear as a "*Debit*" in one account and a "*Credit*" in the other. The business is assumed to be a solvent, profitable one.

(*a*) Stock at the commencement of the year.
(*b*) Stock at the end of the year.
(*c*) Salaries.
(*d*) John Brown, Drawings Account.
(*e*) John Brown, Capital Account.
(*f*) Cash at Bank.
{ *After crediting him with net profits in excess of the Drawings.*
(*g*) Creditors.
(*h*) Debtors.
(*i*) Sales.
(*j*) Purchases.
(*k*) Gross Profits (*Balance of Trading Account*).
(*l*) Net Profits (*Balance of Profit and Loss Account*).
(*m*) Rent and Rates.
(*n*) Reserve for "*Depreciation*" and "*Doubtful Debts.*"
(*o*) Investments.
(*p*) Interest on Investments.
(*q*) Discounts and Allowances (*Balance against John Brown*).

[15 marks.]

6. Explain the difference between—
(*a*) Open Letter of Credit.
(*b*) Documentary Letter of Credit. [12 marks.]

7. As a rule, in order to arrive at a Trial Balance, the balances of the respective accounts open at the time have to be extracted from two books of accounts, but, by a certain system, all such balances can be posted to one book, and extracted from that one book. Explain the system and give the names of the two books in the first instance, and of the one book in the second instance. [12 marks.]

8. The Balance Sheet hereunder is improperly drawn up, and in some cases items are shown on the wrong side (Liabilities requiring to be set out on the *Debit* side, and Assets on the *Credit*

side). Set out this Balance Sheet, properly marshalling the accounts, but not altering the individual figures except in the case of the Capital Account, to which give the correct figure, adjusting the final totals.

BALANCE SHEET, December 31, 1906

Dr.	£	s.	d.	Cr.	£	s.	d.
To Cash at Bankers	182	0	0	By Reserve	137	0	0
,, Investments	1,682	0	0	,, Creditors	4,297	0	0
,, Capital Account (subject to adjustment, as above)	8,000	0	0	,, Cash in hand	2	0	0
				,, Stock	2,540	0	0
				,, Freeholds	5,033	0	0
,, Debtors	2,246	0	0	,, Bills Payable	397	0	0
,, Loan from Bankers	1,500	0	0	,, Plant and Machinery	2,134	0	0
,, Bills Receivable	830	0	0				
,, Goodwill	600	0	0				
£	14,540	0	0	£	14,540	0	0

[13 marks.]

9. Supposing a set of books, kept by a Single Entry only, were placed in your hands, for the purpose of preparing a Balance Sheet and a Profit and Loss Account, what further Ledger accounts would have to be set up to arrive at the Double Entry system required, and how would you proceed to complete this work required to be done? [13 marks.]

10. Adam Brown and Joseph Smith are in partnership. Adam Brown on January 1, 1906, had Capital amounting to £15,000 in the business, and on June 1, 1906, put into the business a further £5,000. On January 1, 1906, Joseph Smith had Capital amounting to £10,000.

The profits at December 31, 1906, amount to £7,000 and are dealt with as follows—

1. Reserve for Bad and Doubtful Debts, £300.
2. Depreciation on Plant and Machinery, £500.
3. Interest at 5 per cent. on Partners' Capital from the dates paid in respectively.
4. Balance net profit divided as under: say,
   Adam Brown, two-thirds.
   Joseph Smith, one-third.

Write up Adam Brown and Joseph Smith's Ledger accounts for 1906, and show the balance to the credit of each on January 1, 1907. [15 marks.]

INSTITUTE OF BANKERS.

Preliminary Paper, April 1908.

[2 hours allowed.]

Note.—*Seven* only out of the following *ten* questions are to be attempted. The number of marks assigned to each question is given in brackets at the end of the same.

Definition and General Principles.

1. Brown, Jones and Robinson are partners with Capital as follows: Brown, £10,000; Jones, £8,000; Robinson, £6,000, making

£24,000 in all, such Capital being subject to 5 per cent. interest per annum. The net profits for the year amount to £7,200, divisible as follows—

(*a*) **5 per cent. Interest to the Partners on their Capital.**
(*b*) **One-half of the remainder to be allocated to the respective partners as profit *pro ratâ* to their respective Capital.**
(*c*) **The other half to be divided up as follows—**

One-third to go to the General Reserve;
One-sixth to go to the Sinking Fund towards extinction of Lease;
The remainder to be divided equally among the three partners as further profit.

Write up accounts showing what each partner receives by way of Interest and Profit, and how much goes to the General Reserve, as also to the Sinking Fund. [15 marks.]

2. Give the ruling of a "Sales Journal" on the tabulated columnar system, filling in the headings for six departments. Make two entries of sales and post to the Ledger accounts, both Personal and Impersonal. In what respect does the "Sales Journal" differ from the "Bought Journal"? [10 marks.]

3. To which books (Sales Journal and Bought Journal) are "Returns Inwards" and "Returns Outwards" books correlative? and explain the use of these two latter books. [10 marks.]

4. The following Balance Sheet has been wrongly taken out from the traders' books of account, and therefore the totals on each side do not agree as they otherwise should have done. You are required to set out the items correctly on each side ("Assets and Liabilities"), when the same will duly balance, and when doing so marshal the respective items in their recognized order—

LIABILITIES.	£	s.	d.	ASSETS.	£	s.	d.
To Creditors on Open Account	3,090	6	4	By Cash at Bank and in hand	1,206	10	6
,, Bills Receivable	3,008	7	4	,, Debtors on Open Account	4,005	4	6
,, Mortgage on Freehold Property (see Contra)	6,000	0	0	,, Bills Payable	2,565	8	3
,, Partners' Drawings in anticipation of undivided Profits	1.000	0	0	,, Stock	2,550	2	6
,, Partners' Capital	10,000	0	0	,, Plant and Machinery	6,020	7	6
				,, Freehold Property (see Mortgages, Contra)	10,020	6	8
				,, Reserve	2,000	0	0
				,, Profit and Loss Account, undivided Profits	4,155	4	5
£	23,098	13	8	£	32,523	4	4

[20 marks.]

5. When a Bill Payable and a Bill Receivable mature and are met, on which sides of the Cash Book are the amounts respectively entered, and to which sides of the Ledger are they posted? [5 marks.]

6. Explain what is meant by a "Contingent Liability," and how would you show it on the Balance Sheet without increasing on both sides the totals of *actual* "Liabilities and Assets"? [5 marks.]

7. Give the ruling of a Journal and record therein the following transactions—

(*a*) Adam Brown instead of Alfred Brown has been credited with the half-year's dividend on £1,000 Rohilkund and Kumaon Railway Stock, £35. Pass the necessary entry, correcting the error and crediting Alfred Brown.

(*b*) Credit William Jones and Thomas Smith with one year's interest at 5 per cent. on their respective Capital of £15,000 (William Jones) and £10,000 (Thomas Smith).

(*c*) Write off following bad debts: Abel Benson, £10 7*s.* 6*d.*; Benjamin Cawston, £14 3*s.* 5*d.*; Theodore Howard, £5 4*s.* 9*d.*; and David Powell, £1 1*s.* 6*d.* In all, £30 17*s.* 2*d.*

(*d*) Transfer the following Debit Totals to Profit and Loss: Rent, £150; Salaries, £500; Office Expenses, £50; Bad Debts, £30 17*s.* 2*d.*; Interest (including Partners' Capital), £1,400. In all, Total Expenditure, £2,130 17*s.* 2*d.*

(*e*) Transfer the following Credit Totals to Profit and Loss: General Commissions, £4,370 2*s.* 6*d.*; Insurance Brokerages, £2,150 4*s.* 9d. In all, Total Gross Profits, £6,520 7*s.* 3*d.*

(*f*) Transfer the difference between the above Total Gross Profit, £6,520 7*s.* 3*d.*, and Total Expenditure, £2,130 17*s.* 2*d.*, say £4,389 10*s.* 1*d.*, being net profit for the year from Profit and Loss to William Jones's Drawings Account, three-fifths; and Thomas Smith's Drawings Account, two-fifths (being *pro ratâ* with their respective Capital).

Note.—In making these six Journal entries be careful to enter in each case the distinctive name of the Ledger account, both Personal and Impersonal. [25 marks.]

8. Explain the use of the three recognized primary books of account, viz.—

(*a*) "The Journal."
(*b*) "The Cash Book."
(*c*) "The Ledger."

Also of the subsidiary book to the Cash Book, viz. "The Petty Cash Book." [5 marks.]

9. Explain the meaning of the two categories of Ledger accounts, viz.—

I. "Personal Accounts."
II. "Impersonal Accounts," sub-divided into—
(*a*) Real Accounts.
(*b*) Nominal Accounts. [5 marks.]

10. Out of the following heads of Ledger accounts draw up a "Trading Account," a "Profit and Loss Account," and a "Balance Sheet," omitting all figures throughout, but showing the necessary "Carried forward" and "Brought forward" wherever they occur in the ordinary way. "Debtors," "Creditors," "Rent and Rates," "Capital," "Wages," "Bills Payable," "Purchases," "Sales," "Bills Receivable," "Stock at commencement of the year," "Stock at end of the year," "Partners' Drawings," "Reserve," "Plant and Machinery," "Freehold Premises," "Salaries," "Travelling,"

"Investments," "Office Disbursements," "Cash at Bank," "Cash in hand," "Renewals and Repairs," "Gross Profit," "Net Profit."

In drawing up these three skeleton accounts take care to marshal the respective headings in their usually recognized order.

[20 marks.]

INSTITUTE OF BANKERS.

Final Paper, April 1908.

[2 hours allowed.]

Note.—*Seven* only out of the following *ten* questions are to be attempted. The number of marks assigned to each question is given in brackets at the end of the same.

Double Entry: Elucidation and Explanation.

1. Give the ruling of a Cash Book (with discount column), of a Bought Journal, and of a Sales Journal (both on the columnar system), as also of a Ledger, the rulings of all four books to contain posting columns. Record in the first three books the following transactions respectively applying to each, posting such entries into the Ledger; take out a Trial Balance of the totals—

1908.

Jan. 1. *a.* Bought of the Cleveland Iron Co., Ltd., for cash in a month—
- 2,000 tons Best Spanish Ore, at 17*s.* 6*d.* per ton.
- 2,000 tons Cleveland Pig Iron, at £2 10*s.* per ton.
- 1,000 tons Cleveland Hæmatite Iron, at £3 10*s.* per ton.

,, 2. *b.* Sold to Moss, Isaacs & Co. for cash in a fortnight—
- 1,000 tons Cleveland Pig Iron, at £2 15*s.* per ton.
- 1,000 tons Best Spanish Ore, at £1 per ton.

,, 3. *c.* Sold to Tracey, Turnerelli & Co., for cash in a fortnight—
- 1,000 tons Best Spanish Ore, at £1 1*s.* per ton.
- 1,000 tons Cleveland Pig Iron, at £2 17*s.* 6*d.* per ton.
- 1,000 tons Cleveland Hæmatite Iron, at £3 15*s.* per ton.

,, 10. *d.* Received on account of Messrs. Moss, Isaacs & Co., £2,925, allowing them £75 (2½ per cent. discount), making together £3,000.

,, 11. *e.* Received on account of Tracey, Turnerelli & Co., £5,850, allowing them £150 (2½ per cent. discount), making together £6,000.

,, 15. *f.* Paid on account to Cleveland Iron Co., Ltd., £7,800, they allowing £200 (2½ per cent. discount), making together £8,000.

g. Paid Landlord (E. Bales), one quarter's Warehouse and Office Rent, £125. [15 marks.]

2. The following are a "Trading Account," a "Profit and Loss Account," and a "Balance Sheet." Transpose the figures therein shown into the original final Ledger balances whence the above three accounts were raised. In doing this eliminate all contras of every description, such as, for instance, balances transferred from "Trading Account" to "Profit and Loss Account," and thence to

"Balance Sheet," as also "Stock at December 31, 1907," transferred from "Trading Account" to "Balance Sheet."

TRADING ACCOUNT, Year ending December 31, 1907

Dr. Cr.

	£	s.	d.		£	s.	d.
To Stock at Jan. 1, 1907...	5,296	10	6	By Sales........................	19,625	2	10
,, Purchases	8,372	4	5	,, Stock at December 31, 1907, carried to Balance Sheet.....	5,423	13	4
,, Wages.......................	4,699	10	0				
,, Rent of Warehouses ...	1,000	0	0				
,, Gross Profit carried down........................	5,680	11	3				
£	25,048	16	2	£	25,048	16	2

PROFIT AND LOSS ACCOUNT, Year ending December 31, 1907

Dr. Cr.

				£	s.	d.		£	s.	d.
To Office Rent	£300	0	0				By Gross Profit brought down	5,680	11	3
,, Office Salaries	725	10	6				,, Profit on Discount and Interest Account.......	212	10	6
,, Renewals and Repairs......	126	4	5							
,, Fire Insurance	45	7	6							
,, Travellers	420	2	2							
,, Office Expenses	115	5	7							
				1,732	10	2				
,, Net Profit for the year ending December 31, 1907 carried to Balance Sheet				4,160	11	7				
£				5,893	1	9	£	5,893	1	9

BALANCE SHEET, December 31, 1907

Dr. Cr.

	£	s.	d.		£	s.	d.
To Creditors on Open Account....................	2,522	5	3	By Cash at Bank and in hand........................	2,750	7	6
,, Bills Payable	3,311	2	2	,, Debtors on Open Account.........................	3,965	4	6
,, Profit and Loss Account, Net Profit for the year ending December 31, 1907	4,160	11	7	,, Bills Receivable..........	5,467	7	3
,, Capital Account—Partners' Capital	15,000	0	0	,, Stock at December 31, 1907	5,423	13	4
				,, Plant and Machinery ..	4,887	6	5
				,, Partners' Drawings in anticipation of undivided Profits.............	2,500	0	0
£	24,993	19	0	£	24,993	19	0

[20 marks.]

3. Explain the present and future effect of over-valuing Stock and other Assets at the time of taking out the Balance Sheet; it being understood that in subsequent Balance Sheets such Stock and other Assets are correctly valued. [5 marks.]

4. How can a merchant, who accurately keeps a full set of books and records every transaction therein by Double Entry, satisfy himself at the end of the financial year not only as to his exact pecuniary position, but also whether his year's trading has resulted in a profit or a loss, and the exact amount of profit or of loss, as the case may be? [10 marks.]

5. Give the ruling of a Petty Cash Book on the "Tabulated Columnar System." Explain the working of it, and show how, by using it in connection with the "Imprest System," the totals of the various heads of Expenditure are periodically posted to their respective Ledger accounts with the minimum of labour. [5 marks.]

6. Messrs. Dossabhoy, Merwangee & Co., of Bombay, consign to Messrs. Narrabhoy, Simpson & Co., of London, goods which cost £10,000, for which they draw upon London Bills aggregating £11,555 17*s.* 6*d.*, which the London firm accept on presentation and meet at maturity. The Bombay house pay cash for freight and marine insurance amounting to £1,193 10*s.* 6*d.* The consignment realizes in London £15,795 8*s.* 10*d.*, after paying all charges on this side. Make the necessary entries in Messrs. Dossabhoy, Merwangee & Co.'s books, and show the balance due from Messrs. Narrabhoy, Simpson & Co., after dividing the profits equally. [10 marks.]

7. Brown, Jones & Co., in partnership, take out at December 31, 1907, the following Trial Ledger Balance—

DEBITS.	£	*s.*	*d.*	CREDITS.	£	*s.*	*d.*
Stock at January 1, 1907 ..	5,000	0	0	Sales during the year	25,000	0	0
(*Note.*—Stock at Dec. 11, 1907, is £10,500.)				Bills Payable..................	3,000	0	0
				Creditors on Open Account	2,500	0	0
Bills Receivable..............	5,000	0	0	Creditors on Mortgage Account (Freehold Premises)	5,000	0	0
Debtors on Open Account	3,500	0	0				
Purchases during the year	15,000	0	0				
Wages	2,500	0	0	Partners' Capital—			
Salaries..........	1,000	0	0	Edward Brown £15,000			
Rent of Offices................	500	0	0	Thomas Jones 10,000			
Freehold Premises	12,800	0	0		25,000	0	0
(Mortgaged for £5,000.)				Sinking Fund against Goodwill and Patents....	3,000	0	0
Plant and Machinery........	5,000	0	0				
Office Expenses.....	300	0	0				
Renewals and Repairs......	400	0	0				
Partners' Drawings— Edward Brown £1,500 Thomas Jones 1,000	2,500	0	0				
Investments against Sinking Fund......................	3,000	0	0				
Interest, Discount, and Allowance (Balance)......	100	0	0				
Goodwill: Original cost...	3,000	0	0				
Patents: Original Cost....	2,000	0	0				
Travelling	800	0	0				
Cash in hand	100	0	0				
Cash at Bank	1,000	0	0				
£	63,500	0	0	£	63,500	0	0

Make the Journal entries for the following—

Credit each partner with one year's interest at 5 per cent. on his Capital. Make a Reserve of £250 against Bills Receivable and £150

against Debtors, together £400. Write off Depreciation on Plant and Machinery, £500, and add a further £1,000 to the Sinking Fund against Goodwill and Patents, bringing it up to £4,000.

When the above Journal entries are made draw up a Trading Account and a Profit and Loss Account, transferring the net profit *pro ratâ* three-fifths and two-fifths to the Partners' Drawings Accounts, and then draw up a Balance Sheet. [25 marks.]

8. The following is Messrs. Smart, Sharp & Co.'s Balance Sheet at December 31, 1907, on which they seek to raise a further loan of £5,000 on their bankers (Messrs. Bullion & Co.). State whether, in your opinion, Messrs. Bullion & Co. are justified in making the further advance, or whether they should decline, giving your reasons as clearly as possible for the course you consider the bankers should take—dealing separately with each item, Dr. (Liabilities), and Cr. (Assets), in consecutive order.

Pro formâ **BALANCE SHEET, December 31, 1907**

Dr. Cr.

Liabilities.	£	s.	d.	Assets.	£	s.	d.
To Advance from Messrs. Bullion & Co.	5,000	0	0	By Cash— At Bank, Messrs. Bullion & Co. £2,500 In hand, Petty Cash 100	2,600	0	0
,, Creditors on various Accounts, estimated at, say	14,500	0	0	,, Debtors on various accounts, estimated at, say	8,500	0	0
,, Reserve Account as per Balance Sheet, December 31, 1897	500	0	0	,, Investments (December 31, 1897)— Balance as per Ledger	1,600	0	0
,, Capital Account	20,000	0	0	,, Partners' Drawings Accounts....................	7,500	0	0
				,, Stock and Goodwill (December 31, 1897)...	13,500	0	0
F. & O. E., January 31, 1908. Smart, Sharp & Co.				,, Profit and Loss Account— Net Balance to date...	5,500	0	0
				,, Differences in books unascertained, say	800	0	0
£	40,000	0	0	£	40,000	0	0

9. Messrs. Hentsch & Co., bankers, Geneva, draw on January 1, 1908, on account of customers, the two following Bills through their London agents on Messrs. Good, Sterling & Co., St. Swithin's Lane—

No. 1, at 60 days' date, for £73 16*s.* 11*d.*
No. 2, at 60 days' sight, for £1,926 3*s.* 1*d.*

Both these Bills are accepted on January 4, 1908. Give the due date of the maturity of each Bill (including days of grace) and the amount of draft stamp the London agents affix to each Bill. [5 marks.]

10. What do you understand by "*Liquid Assets*"? Give four headings of this class of Asset and marshal them in the general recognized order of priority. [10 marks.]

INSTITUTE OF BANKERS.

PRELIMINARY PAPER, April 1909.

[2 hours allowed.]

NOTE.—*Seven* only out of the following *ten* questions are to be attempted. The number of marks assigned to each question is given in brackets at the end of the same.

DEFINITION AND GENERAL PRINCIPLES.

1. M. Rankin and W. King decide to amalgamate their two businesses under the style or firm of Rankin & King.

The firm decided to take over the following Assets and Liabilities at the figures stated—

	£	s.	d.
From M. Rankin—			
Land and Buildings	10,000	0	0
Plant and Machinery	5,000	0	0
Stock-in-trade	3,000	0	0
Work in Progress	1,000	0	0
Debtors	5,500	0	0
Cash at Bank	1,000	0	0
Bills Receivable	2,000	0	0
Bills Payable	3,000	0	0
Reserve for Discount on Debtors	150	0	0
Creditors	6,000	0	0
Mortgage Creditor	8,000	0	0
From W. King—			
Stock-in-trade	6,000	0	0
Debtors	10,000	0	0
Cash at Bank	2,000	0	0
Creditors	5,000	0	0

Make the opening Journal entries in respect of the above, post the same to Ledger accounts, and prepare starting Balance Sheet of Rankin & King, showing the respective Capitals of M. Rankin and W. King in the new firm. [20 marks.]

2. What is the distinction between "Gross" and "Net" Profit or Loss; also between "Account Sales" and "Account Current"? Set out an Account Current, inserting twelve amounts therein. [10 marks.]

3. Enter the following transactions in the respective Bought and Sold Day Books, Journal, and Cash Book, and post to the Ledger; balance the Ledger accounts and prepare a trial balance.

(*a*) Purchased from A. Bray & Co. 200 tons Pig Iron at 45*s.* per ton, £450.

(*b*) Sold Wm. Smith & Co. 40 tons Pig Iron at 60*s.* per ton, £120. Paid Carriage thereon, £10.

(*c*) Sold F. Midlane 148 tons Pig Iron at 48*s.*, £355 4*s.*

(*d*) Received Cheque, £118, from Wm. Smith & Son in payment of Pig Iron. Discount allowed, £2.

(*e*) Received from F. Midlane cash on account, £200.

(*f*) Withdrew from Bankers £100, from which were paid Salaries, £50; Rent, £40; and £10 advanced to Petty Cash.

(*g*) Accepted A. Bray & Co.'s Bill for £450 at 3 months.

[20 marks.]

4. Explain the terms—
  (a) Debit and Credit.
  (b) Assets and Liabilities.
  (e) Revenue Account and Profit and Loss Account.
  (d) Cash Account and Income and Expenditure Account.

[10 marks.]

5. (a) A. Brandt sells B. Spicer Goods to the value of £500.
  (b) A. Brandt buys from B. Spicer Goods to the value of £300.
  (c) A. Brandt receives from B. Spicer cash, £250.

Show the above transactions as they would appear in—
  (a) A. Brandt's Ledger.
  (b) B. Spicer's Ledger. [10 marks.]

6. When an Invoice of a Purchase is received, how would the accuracy of the same, in large works, be ascertained as to quantities and prices, and what signatures would be required before the book-keeper would enter such Invoice in the Purchases Day Book?

[10 marks.]

7. Make out an Account Sales of 500 bales of Cotton from New Orleans per s.s. *Wilmslow*, consigned to M. Cook & Sons on commission by John Smythe & Co.—

Sold 250 Bales = 103,270 lbs. at 5*d.* per lb. to W. Soley.
Sold 200 Bales = 80,375 lbs. at 6¼*d.* per lb. to W. Boothe.
Remainder unsold.

Charges paid by Consignee as follows—
Freight, £160.
Insurance and Other Charges, £50.
Commission on Sales, 2½ per cent. [10 marks.]

8. Explain the terms "Bill Receivable," "Bill Payable," and "Bill of Exchange."

Rule a form of Bills Receivable Book and enter particulars of two Bills thereon.

Open Personal and Impersonal Ledger Accounts in respect of the two Bills and post the Bills to such accounts. [15 marks.]

9. How would you proceed to prepare a Profit and Loss Account and a Balance Sheet, and what nature of item would be inserted in each account respectively? [10 marks.]

10. The following figures are all Balance Sheet items, from which prepare a Balance Sheet of the firm of Black & White, December 31, 1908—

	£	s.	d.	£	s.	d.
C. Black, Capital				5,000	0	0
L. White, Capital Account in debit	2,000	0	0			
Land and Buildings	3,000	0	0			
Plant	1,000	0	0			
Debtors	6,000	0	0			
Stock of Goods	5,000	0	0			
Reserve for Bad Debts (Credit Balance)				500	0	0
Creditors				5,000	0	0
Bills Payable				2,000	0	0
C. Black, Drawings	500	0	0			
L. White, Drawings	600	0	0			
Depreciation of Buildings (Credit Balance)				500	0	0

	£	s.	d.	£	s.	d.
Profit—						
C. Black, two-thirds	1,400	0	0			
L. White, one-third	700	0	0			
				2,100	0	0
Loan from Bankers				3,000	0	0

[15 marks.]

INSTITUTE OF BANKERS.

Final Paper, April 1909.

[2 hours allowed.]

Note.—*Seven* only out of the following *ten* questions are to be attempted. The number of marks assigned to each question is given in brackets at end of same.

Double Entry: Elucidation and Explanation.

1. S. Syme was in business, and decided to sell the Goodwill to a Limited Company.

A Limited Company was incorporated with a nominal Capital of £100,000, viz. 10,000 Shares of £10 each, of which 5,000 Shares fully paid were issued to S. Syme in respect of the Goodwill, and 3,000 Shares were applied for and allotted to the general public.

These latter 3,000 Shares were payable as follows—

£1 per Share on Application.
£2 per Share on Allotment, October 1, 1908.
£2 per Share First Call on December 1, 1908.
£2 per Share Second Call on February 1, 1909.

The Application and Allotment Money, together with £5,000 in respect of the First Call and £1,000 in respect of the Second Call, was received and paid into the Banking Account, the balance of the Ledger account representing Calls unpaid.

Make the opening Journal and Cash Book entries for the above transactions and post the same to the Ledger.

Prepare the first Balance Sheet of the Company as at February 2, 1909, assuming that there has been no Capital expenditure and that the whole of the money received remains at the bankers. [25 marks.]

2. The following is the financial position of Richardson & Pickford at January 1, 1908—

BALANCE SHEET, January 1, 1908

Dr. Cr.

		£	s.	d.			£	s.	d.
To Creditors—					By Cash at Bankers.........		2,000	0	0
On Bills Payable..........	£800 0 0				,, Bills Receivable		750	0	0
A. Willing ...	1,250 0 0				,, Debtors—				
B. Glover.....	550 0 0				W. F. Fowle	£1,200 0 0			
		2,600	0	0	M. Pilkington..........	800 0 0			
,, Capital—						2,000 0 0			
C. F. Richardson..........	5,050 0 0				*Less* Reserve for Discount.......	50 0 0			
G. Pickford..	5,050 0 0						1,950	0	0
		10,100	0	0	,, Stock of Goods		3,000	0	0
					,, Plant and Machinery..		2,000	0	0
					,, Land and Buildings...		3,000	0	0
		£12,700	0	0			£12,700	0	0

The following is a summary of the Cash Book for the twelve months ending December 31, 1908—

Dr. Cr.

	£	s.	d.		£	s.	d.
To Balance at January 1, 1908	2,000	0	0	By Salaries	600	0	0
" Receipts from W. F. Fowle	7,850	0	0	" Wages	740	0	0
" Receipts from M. Pilkington	5,650	0	0	" Bills Payable	3,660	0	0
" Bills Receivable	4,500	0	0	" Payments to A. Willing	4,850	0	0
				" Payments to B. Glover	2,500	0	0
				" General Office Expenses	400	0	0
				" Drawings, C. F. Richardson	750	0	0
				" Drawings, G. Pickford	750	0	0
				" Balance at December 31, 1908	5,750	0	0
	£20,000	0	0		£20,000	0	0

Post the whole of the above items to their respective Ledger accounts.

The following are the remaining transactions for the year ending December 31, 1908, which enter in their respective Day Books or Journal and post to the Ledger accounts—

	£	s.	d.
Purchases from A. Willing	12,000	0	0
Purchases from B. Glover	3,000	0	0
Discount allowed by A. Willing	50	0	0
Sales to W. F. Fowle	12,550	0	0
Sales to M. Pilkington	6,450	0	0
Discount allowed to W. F. Fowle	100	0	0
Bills Receivable from W. F. Fowle	4,550	0	0
Bills Payable accepted for A. Willing	7,750	0	0
Stock of Goods at December 31, 1908	3,500	0	0

At December 31, 1908, write off Depreciation on Plant and Machinery, £200, and provide Reserves for—

Land and Buildings	£150
Discounts on Debtors	£100

Take out a Trial Balance of the Ledger balances and afterwards prepare a Profit and Loss Account and Balance Sheet at December 31, 1908. Divide the profit equally between the two partners.

[40 marks.]

3. Journalize in tabular form the following sales, placing all the impersonal items under their respective separate accounts—

	£	s.	d.
W. Wills & Co.			
For Goods	650	0	0
Brokerage . . .	12	0	0
Insurance . . .	3	0	0
Freight . . .	12	0	0
Other Charges . .	3	0	0
W. Jones & Co.			
For Goods	1,000	0	0
Commission . . .	20	0	0
Freight . . .	10	0	0
Charges . . .	5	0	0
	1,035	0	0
Less Interest . .	20	0	0
	£1,015	0	0
A. Basden & Co.			
For Goods	500	0	0
Commission . . .	10	0	0
	510	0	0
Less Interest . .	15	0	0
	£495	0	0

[10 marks.]

4. The following is the Trial Balance of Messrs. Jones and Colville at December 31, 1908—

	£	s.	d.	£	s.	d.
Bills Payable				700	0	0
Land and Buildings	7,000	0	0			
Work in Progress at December 31, 1908	2,500	0	0			
Received on account of Work in Progress to December 31, 1908 . .				1,500	0	0
Stock of Goods at January 1, 1908 .	4,000	0	0			
F. Jones, Capital				10,000	0	0
G. Colville, Capital				5,000	0	0
Plant and Machinery	5,600	0	0			
Bills Receivable	1,500	0	0			
Purchases	13,000	0	0			
Sales				22,000	0	0
Wages	3,500	0	0			
Salaries	570	0	0			
Rates and Taxes	200	0	0			
General Office Expenses	500	0	0			
Partners' Salaries	800	0	0			
Furniture and Fixtures	300	0	0			
Cash at Bank	230	0	0			
Discounts	500	0	0			
Creditors				1,000	0	0
	£40,200	0	0	40,200	0	0

Stock of Goods at December 31, 1908, £6,470.

Prepare Profit and Loss and Balance Sheet at December 31, 1908,

dividing the profit two-thirds to F. Jones and one-third to G. Colville, but before dividing the profit write off 7½ per cent. Depreciation from Plant and Machinery and create a Reserve of 5 per cent. on Land and Buildings. [15 marks.]

5. A. McCall sold Goods to M. Segoin on July 1, 1908, amounting to £200. With the Invoice Mr. McCall sent Mr. Segoin a Bill for acceptance dated July 1, 1908, for £200 at 3 months, which Mr. Segoin accepted. On July 4 Mr. McCall discounted the Bill with his Bankers, receiving credit in his Pass Book for £200 and was charged £5 for Discount.

On October 1, 1908, Mr. McCall received from Mr. Segoin a cheque for £105, representing £100 on account of the Bill and £5 for Interest, and a further Bill for £100 at 3 months dated October 1, 1908. Mr. McCall paid the cheque into the Bank but did not discount the Bill.

On October 4, 1908, Mr. McCall handed to Mr. Segoin a cheque for £200 to meet the Bill then due.

On January 1, 1909, Mr. McCall paid the Bill for £100 into his Banking Account for collection, and this was duly met by Mr. Segoin.

Make the necessary entries in A. McCall's Journal and Cash Book, posting them into the Ledger. [15 marks.]

6. Explain the meaning of the terms "Fixed and Floating Assets," also explain how you would arrive at the value to be placed upon the Goodwill of a Business for Balance Sheet purposes. [10 marks.]

7. At December 31, 1908, the Balances as per Cash Book and Bank Pass Book are as follows—

Bank Overdraft, as per Cash Book . .	£249
Cash at Bank, as per Cash Book . . .	£78

Explain the probable cause of the difference between the two books, and make a Reconciliation Statement illustrating your answer. [5 marks.]

8. Should a book-keeper in preparing a Balance Sheet of a trading concern show as a Liability Bills Receivable under Discount with the Bankers: if so, show the entry you would make in the Balance Sheet. [5 marks.]

9. In the case of a manufacturer, which items of Income and Expenditure should be included in the Manufacturing Account and which in the Profit and Loss Account? [5 marks.]

10. Explain what is meant by balancing on the Total System, and give specimen entries in a Debtor's Total Account. [5 marks.]

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE AND FINAL EXAMINATIONS, December 1907.

[2 hours allowed.]

Candidates for the Intermediate are to answer the ten questions marked "I." Candidates for the Final are to answer the ten questions marked "F." No marks will be given for answers to any other questions.

I. 1. State shortly the principles upon which the Double Entry

System of book-keeping is founded, and the respective functions of a Balance Sheet and a Revenue (or Profit and Loss) Account.

I. 2. What do you understand by the terms "debit" and "credit"? When does an account show a debit balance, and when a credit balance? What is the meaning of a debit balance on the following accounts—

(*a*) Cash Account,
(*b*) Depreciation Account?

What is the meaning of a credit balance on the following accounts—

(*c*) Capital Account,
(*d*) Bank Account?

I. 3. A capitalist, X., keeps the accounts relating to his personal investments by Double Entry, and on December 31 last he extracted a Trial Balance from his Ledger as follows—

TRIAL BALANCE, *December* 31, 1906.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Capital Account				40,000	0	0
2½ per cent. Consols	18,000	0	0			
Interest and Dividends Account .				960	0	0
3 per cent. London County Council Stock	18,000	0	0			
Miscellaneous Expenses . . .	50	0	0			
Drawings Account	500	0	0			
Bank Account.	410	0	0			
4½ per cent. Cape of Good Hope Stock	4,000	0	0			
	£40,960	0	0	£40,960	0	0

You are required to show the Balance Sheet of X. as on December 31, 1906, taking the various investments as being worth their book values, but allowing for dividends accruing thereon (but not yet received) amounting to £320. Show also the Profit and Loss Account of X. for the year 1906.

I. 4. On July 1, 1907, A. and B., who had previously been engaged in separate businesses, agreed to become partners, and to use the business premises formerly occupied by A. The Assets and Liabilities that they respectively bring into the partnership are mutually agreed as follows:—

	A. £	*s.*	*d.*	B. £	*s.*	*d*
Stock-in-trade	2,000	0	0	2,400	0	0
Balance at Bank	1,000	0	0	1,500	0	0
Trade Debtors	2,000	0	0	3,000	0	0
Trade Creditors	1,200	0	0	1,000	0	0
Business Premises	1,500	0	0	—		
Furniture and Fixtures	500	0	0	—		
Goodwill	1,000	0	0	600	0	0
Bills Payable	800	0	0	500	0	0

You are required to show (*a*) the Journal entries necessary to open the books of the partnership, and (*b*) its Balance Sheet as on July 1, 1907.

I. 5. F. What is an Account Current? Give a *pro formâ* example of an Account Current between A. and B., showing a balance due to the former.

I. 6. F. State as fully as you can what kinds of errors may occur in books of account which a Trial Balance will fail to detect.

I. 7. F. Distinguish between Trade Discounts and Cash Discounts, and state shortly how each should be dealt with in the books of a commercial business.

I. 8. F. On June 1, 1907, A. sold to B. goods value £400, receiving in exchange B.'s Acceptance at three months for that amount. On June 3 he discounted B.'s Acceptance with his bankers, who charge him £5. At maturity the Bill was dishonoured, and seven days later it was renewed at three months, A. charging £10 interest.

You are required to show the above transactions in A.'s Cash Book and Ledger.

I. 9. F. Taking the facts as stated in the preceding question, show in the form of Journal entries how they should be recorded in the books of B.

I. 10. F. How would you distinguish between Capital Expenditure and Revenue Expenditure? For purposes of account why is it necessary that such a distinction should be observed?

11. F. A firm of merchants are in the habit of making a provision against Bad and Doubtful Debts by charging against profits 5 per cent. on the Sales for the year. Their total Sales for the past three years have been £50,000, £55,000 and £65,000 respectively. In the first of these years £1,500 was actually written off customers' accounts as Bad Debts, in the second year £3,000, and in the third year £2,750.

Show the Ledger accounts necessary to record these transactions and provisions.

12. F. On December 31, 1906, the A. Company, Ltd., had a Reserve Fund of £100,000, represented by an investment of £112,359 12*s.* Consols at 89. On May 15, 1907, the Company purchased from X., for £25,000, the freehold of the land upon which its leasehold business premises were situated, the purchase to be completed on June 30 following. On the latter date Debentures of the A. Company, Ltd., for £50,000 were paid off at par, and the aforesaid purchase was completed, the moneys required for both purposes being provided by the sale of the requisite quantity of Consols, which produced 84 net.

You are required to show the Ledger accounts affected by the above transactions.

13. F. From the following Trial Balance of the Alpha Manufacturing Company, Ltd., for the year ended December 31 last, prepare Trading Account, Profit and Loss Account and Balance Sheet, after providing a Reserve of £150 for Doubtful Debts, and for Depreciation of Plant and Machinery at 7½ per cent., also making allowance for £50 rates paid in advance.

TRIAL BALANCE, *December* 31, 1906.

	Dr. £	s.	d.	Cr. £	s.	d.
Sales				48,000	0	0
Materials Purchased	32,000	0	0			
General Expenses	1,750	0	0			
Repairs	1,600	0	0			
Returns	200	0	0			
Fuel consumed	2,400	0	0			
Lighting	150	0	0			
Trade Creditors				2,000	0	0
Plant and Machinery	14,000	0	0			
Wages	6,200	0	0			
Land and Buildings	7,600	0	0			
Salaries	500	0	0			
Trade Debtors	4,000	0	0			
Bank	1,800	0	0			
Transfer Fees				50	0	0
Stock on December 31, 1905—						
Materials	4,500	0	0			
Finished Goods	8,000	0	0			
Stores	100	0	0			
Rent, Rates and Taxes	600	0	0			
Capital Account— 4,000 Shares of £10 each				40,000	0	0
Bad Debts	250	0	0			
Stores Purchased	400	0	0			
Interim Dividend— Paid August 31, 1906	4,000	0	0			
	£90,050	0	0	£90,050	0	0

The Stock on hand on December 31 last was as follows—

	£	s.	d.
Raw Materials	8,000	0	0
Finished Goods	7,500	0	0
Stores	150	0	0

14. F. Define Depreciation, and state the consequences of persistently omitting to make provision for such depreciation as may have occurred.

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE AND FINAL EXAMINATIONS, June 1908.

[2 hours allowed.]

Candidates for the Intermediate are to answer the ten questions marked "I." Candidates for the Final are to answer the ten questions marked "F." No marks will be given for answers to any other questions.

I. 1. State how many different classes of Ledger accounts there are, and give one example of each class, stating upon which side of the account the balance would normally be.

I. 2. What do you understand by the expression "Closing the

books"? When does this operation take place, and what is its purpose?

I. 3. Journalize the following transactions—

(*a*) Bought from A. goods value £50.
(*b*) Sold to B. goods value £25.
(*c*) Allowed B. as discount 12*s.* 6*d.*

I. 4. What do you understand by Tabular Book-keeping? State shortly under what circumstances the system is advantageous.

I. 5. F. X., a Merchant, in the course of preparing his Balance Sheet for the past year, finds upon his books the following debit balances: A., £10; B., £12; C., £15. A.'s account he regards as wholly bad, and he does not expect to recover more than half of the amount due from B., and two-thirds of the amount due from C.

Show, in Journal form, what entries should be made in X.'s books before proceeding to prepare his Balance Sheet.

I. 6. F. The following is the Trial Balance of Y., a City merchant, for the year ended December 31 last. You are required to prepare therefrom Trading Account, Profit and Loss Account, and Balance Sheet, taking the Stock at the close of the year as being worth £5,000.

TRIAL BALANCE, *December* 31, 1907.

	Dr.			*Cr.*		
	£	*s.*	*d.*	£	*s.*	*d.*
Stock, January 1, 1907	4,800	0	0			
Purchases	12,250	0	0			
Sales				16,500	0	0
Premises	9,500	0	0			
Salaries	650	0	0			
Sundry Creditors				5,000	0	0
Carriage and Freight	750	0	0			
Rent, Rates and Taxes	500	0	0			
General Expenses	275	0	0			
Bills Payable				500	0	0
Bad Debts	75	0	0			
Bank	2,400	0	0			
Capital Account				11,000	0	0
Drawings	1,200	0	0			
Bills Receivable	600	0	0			
	£33,000	0	0	£33,000	0	0

I. 7. F. Instance three different kinds of errors in accounts that would not disturb the agreement of the Trial Balance.

I. 8. F. Show the Ledger accounts affected by the following transactions, and state through what book of first-entry each would be recorded—

1908.
Jan. 1. Sold to A. Goods value £100.
,, 5. ,, ,, £200.
Feb. 1. Drew upon A. at three months for £300.
,, 4. Discounted A.'s Acceptance with bankers at 6 per cent.

I. 9. F. State how you would deal with Cash Discounts in a business where the receipt and allowance of such discounts is frequent.

I. 10. F. On January 1, 1888, the A. Company, Ltd., acquired a fifty years' lease of its business premises, paying therefor £10,000. It was decided to provide for depreciation by setting aside £90 per annum as a Sinking Fund, and on December 31, 1907, the amount so set aside had (with interest) accumulated to £2,400. On December 31, 1907, the Directors obtained from an insurance company a policy assuring them the payment of £10,000 at the end of thirty years, in consideration of an annual premium of £220, the first premium being paid upon that date; and having thus provided for the redemption of Capital they gave instructions that the £2,400 accumulated during the past twenty years should be stated in the Balance Sheet dated December 31, 1907, as "Reserve Fund."

Do you consider this treatment correct? Give reasons for your answer.

11. F. Capital Expenditure has been defined as expenditure of such a character as to necessarily involve further expenditure for upkeep in subsequent years. Give two examples of Capital Expenditure that would not be covered by this definition.

12. F. State shortly the difference between the basis for the valuation of assets in the Balance Sheet of a going concern and in the Statement of Affairs of an insolvent business.

13. F. What do you understand by sectional balancing?

14. F. X. & Co. are Wholesale Drapers. It is their practice when preparing their annual Balance Sheet to make a Reserve of 2½ per cent. on their Trade Debtors and Creditors to cover Cash Discounts. On December 31, 1906, the Outstanding Debtors were £4,872, and the Creditors £2,648. At the end of the following year the figures were £3,980 and £2,964 respectively. During the year 1907 the totals of Discounts (as per Cash Book) were as follows: *Dr.*, £1,623; *Cr.*, £1,205.

You are required to show the Discount Account for the year 1907, as it would appear after closing the books on December 31 last.

CHARTERED INSTITUTE OF SECRETARIES.

Intermediate and Final Examinations, December 1908.

[2 hours allowed.]

Candidates for the Intermediate are to answer the ten questions marked "I." Candidates for the Final are to answer the ten questions marked "F." No marks will be given for answers to any other questions.

I. 1. State shortly what you understand by the terms "Debit" and "Credit" in accounts.

I. 2. The following is the Trial Balance of the West End Flats Company, Ltd., for the year ended September 30, 1908. You are required to prepare therefrom the Company's Profit and Loss Account and Balance Sheet.

TRIAL BALANCE, *September* 30, 1908.

	Dr. £	s.	d.	Cr. £	s.	d.
Bank	800	0	0			
Rents				4,000	0	0
Sundry Debtors	1,000	0	0			
Sundry Creditors				150	0	0
Freehold Buildings	49,000	0	0			
Rates and Taxes	1,000	0	0			
Depreciation	150	0	0			
Office Salaries and Expenses	750	0	0			
Repairs, etc.	250	0	0			
Share Capital				20,000	0	0
4 per cent. Debentures				30,000	0	0
Interest	1,200	0	0			
	£54,150	0	0	£54,150	0	0

I. 3. What are books of first-entry, and what is the advantage of employing such books in addition to Ledgers?

I. 4. A., a West-end shopkeeper, who commenced business on January 1, 1905, decided to make provision for Bad and Doubtful Debts by setting aside 5 per cent. on his annual sales as a reserve. For the first three years his sales were £10,000, £14,000, and £18,000 respectively. When balancing his books on December 31, 1905, he found it necessary to write off debts amounting to £250 as absolutely bad, and in 1906 and 1907 he wrote off £450 and £700 respectively. Write up the Reserve for Doubtful Debts Account for the three years.

I. 5. F. When closing the books of a manufacturing business on June 30, 1908, you are instructed to provide for Depreciation as follows: 2 per cent. off Freehold Land and Buildings standing at £38,000, 7½ per cent. off Plant and Machinery standing at £162,500, 10 per cent. off Loose Tools standing at £2,380. Show the Journal entries necessary to carry out these instructions.

I. 6. F. A. purchased from B. on three different dates goods to the value of £30, £80 and £50. B. drew upon A. for £160 at three months. A. accepted the Bill, and it was duly met at maturity. You are required to show the Ledger Accounts in A.'s books affected by these transactions.

I. 7. F. Taking the facts as stated in the preceding question, show the *pro formâ* Acceptance, stating the stamp payable thereon, and give a *pro formâ* ruling of a Bills Receivable Book.

I. 8. F. Is a Reserve Fund an Asset or a Liability? Give reasons for your answer.

I. 9. F. A. and B. are partners. A.'s Capital is £5,000, and B.'s £3,000. Each is entitled to receive interest on his Capital at 5 per cent. per annum, and subject thereto A. is to receive two-thirds and B. one-third of the annual profits. For the year ended June 30, 1908, the Profit and Loss Account, before charging interest on Capital, showed a Credit balance of £2,468. Show in the form of Journal entries how this should be divided between them.

I. 10. F. What do you understand by "Gross Profit"? Give a *pro formâ* Trading Account of a merchant's business, with figures, showing a gross profit of 20 per cent. upon the Sales.

11. F. From the following Trial Balance of the A. B.

Manufacturing Company, Ltd., for the year ended September 30, 1908, prepare Trading Account, Profit and Loss Account and Balance Sheet, after providing a Reserve of £300 for Doubtful Debts, and for Depreciation of Plant and Machinery at 10 per cent. per annum.

TRIAL BALANCE, *September* 30, 1908.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Sales				96,000	0	0
Materials Purchased	64,000	0	0			
General Expenses	3,500	0	0			
Repairs	3,000	0	0			
Returns	600	0	0			
Fuel consumed	4,800	0	0			
Lighting	300	0	0			
Trade Creditors				4,000	0	0
Plant and Machinery	28,000	0	0			
Wages	12,400	0	0			
Land and Buildings	15,200	0	0			
Salaries	1,000	0	0			
Trade Debtors	7,500	0	0			
Bank	4,100	0	0			
Transfer Fees				100	0	0
Stock on October 1, 1907—						
Materials	9,000	0	0			
Finished Goods	16,000	0	0			
Stores	200	0	0			
Rent, Rates and Taxes	1,200	0	0			
Share Capital (4,000 Shares of £20 each)				80,000	0	0
Bad Debts	500	0	0			
Stores Purchased	800	0	0			
Interim Dividend paid April 30, 1908	8,000	0	0			
	£180,100	0	0	£180,100	0	0

The Stock on hand on September 30, 1908, was—

	£	s.	d.
Raw Materials	16,500	0	0
Finished Goods	15,000	0	0
Stores	250	0	0

12. F. Define "Depreciation," and state when (if ever) it is unnecessary to make provision for the depreciation of Wasting Assets.

13. F. In the case of a trading business having numerous branches at home and abroad, many of which have mutual communications, it necessarily follows that, owing to the time occupied in transit, there will be differences of dates in each branch's record of inter-branch transactions. How would you deal with these matters when preparing the Balance Sheet and Profit and Loss Account of the business as a whole?

14. F. State in general terms how you would ascertain the Net Profit earned by a Company. Under what circumstances, if any, may a Company legally pay a dividend to its shareholders although its operations for the past year have resulted in loss?

CHARTERED INSTITUTE OF SECRETARIES.

INTERMEDIATE AND FINAL EXAMINATIONS, June 1909.

[2 hours allowed.]

Candidates for the Intermediate are to answer the ten questions marked "I." Candidates for the Final are to answer the ten questions marked "F." No marks will be given for answers to any other questions.

I. 1. State, as concisely as you can, the precise difference between Single and Double Entry Book-keeping.

I. 2. Define (*a*) Nominal Accounts,
(*b*) Debit Balances,
(*c*) Trial Balance.

I. 3. What is a Suspense Account? Give an example of one, with two or three entries on each side.

I. 4. A. sold B. goods to the value of £100, and drew upon B. for that amount at three months. A. subsequently discounted the Bill with his bankers, who charged him £2 for the accommodation. The Bill was duly met by B. at maturity. You are required to show (*a*) the above transactions as they would appear in A.'s Ledger, (*b*) *pro formâ* Journal entries in B.'s books relative to the above.

I. 5. F. On January 1, 1909, B. joined A. in partnership, bringing in a capital of £1,000 in cash. On that date A.'s financial position was agreed between the parties as follows—

	£	s.	d.
Stock	1,500	0	0
Debtors	700	0	0
Cash	50	0	0
Creditors	1,250	0	0

Show *pro formâ* Journal entries to open the books of the partnership, and the Balance Sheet of the firm as it would appear on January 1, 1909.

I. 6. F. From the following Trial Balance prepare Balance Sheet and Profit and Loss Account of the Motor Supplies Company, Ltd.—

TRIAL BALANCE, *March* 31, 1909.

	Dr. £	s.	d.	*Cr.* £	s.	d.
Capital				12,000	0	0
Gross Profit				5,000	0	0
Rent	400	0	0			
Discounts				100	0	0
Bad Debts	250	0	0			
Commissions				400	0	0
Business Premises	2,000	0	0			
Stock, March 31, 1909	3,500	0	0			
Furniture and Fittings	500	0	0			
Plant and Machinery	2,000	0	0			
Creditors				1,000	0	0
Debtors	8,000	0	0			
Bills Receivable	2,000	0	0			
Bills Payable				1,500	0	0
Bank	1,000	0	0			
Depreciation	350	0	0			
	£20,000	0	0	£20,000	0	0

I. 7. F. State what you consider to be the advantages of having several books of first-entry, instead of passing all transactions through the Journal, and under what circumstances you consider the retention of the old-fashioned Journal a convenience.

I. 8. F. Make Journal entries in respect of the following adjustments on the closing of a set of books on March 31 last: (*a*) Bad Debts Reserve to be increased by £500. (*b*) A Reserve of 2½ per cent. for cash discounts to be made on Debtors' accounts totalling £10,000, and Creditors' accounts totalling £5,000.

I. 9. F. State why it is that a Bank Pass Book rarely shows exactly the same balance as the Cash Book. Give a *pro formâ* Reconciliation Account, showing how the accuracy of the Cash Book balance may be verified from the Pass Book.

I. 10. F. On January 1, 1909, X. consigned to Y. goods of the *pro formâ* value of £1,000. X.'s expenses in connection with the consignment were £20. On April 1 X. received from Y. his Account Sales dated March 12, showing that the whole of the consignment had been sold, and had realized £1,300 gross; that Y.'s expenses were £50, and his commission 2½ per cent. At the same time Y. remitted to X. a Bill drawn on Z. for the balance due, payable 10 days after sight. You are required to show the accounts in X.'s Ledger affected by these transactions, and give the form of the Bill, assuming it to have been accepted by Z.

11. F. What do you understand by the term Sectional Balancing? State shortly how this operation may be performed, and what are its objects and advantages.

12. F. On March 1, 1909, the A. B. Company, Ltd., redeemed an issue of £50,000 Debentures, at a premium of 5 per cent. Show the necessary entries in the books of the Company.

13. F. A manufacturer wishes to frame his Trading Account so that it will show clearly the value of raw materials used during the current financial period, instead of merely showing the values of materials purchased and of the opening and closing stocks thereof. Explain how this may be done, giving *pro formâ* examples of the accounts necessary to elucidate your explanation.

14. F. State shortly what you understand by Cost Accounts, and the value of these accounts in a manufacturing concern.

LONDON CHAMBER OF COMMERCE.

EXAMINATION FOR SENIOR COMMERCIAL CERTIFICATES, 1906.

[3 hours allowed.]

IMPORTANT NOTICE.

Candidates for the ordinary Senior Certificates may answer all or any of questions 1 *to* 5 (*both inclusive*), *but must not attempt questions* 6 *or* 7.

Candidates for the Teachers' Diploma are confined to questions 2, 3, 5, 6 *and* 7, *and must not answer questions* 1 *or* 4.

1. Briefly describe the uses of the Journal; and give particulars of the entries you would expect to find in the Journal of a business in which the "Sales" and "Bought" Ledgers were balanced independently, by means of adjustment accounts.

2. The undermentioned Profit and Loss Account is that of James Brown, Dairyman, for the year ended December 31, 1905—

PROFIT AND LOSS ACCOUNT

Dr. **Cr.**

	£	s.	d.		£	s.	d.
To Office Salaries	857	0	0	By Balance from Trading Account	2,229	0	0
,, Rent (one year)...........	200	0	0	,, Provision for Bad Debts :—			
,, Taxes (Schd. D. paid for 1905–6 assessment)	56	0	0	Amount received— Dec. 31, 1904 ... £321			
,, Trade Expenses....	532	0	0	Amount reserved— Dec. 31, 1905 ... 277			
,, Insurance (fire)...........	42	0	0		44	0	0
,, Travelling Expenses ...	86	0	0				
,, Depreciation on Plant at 15 per cent.	96	0	0				
,, Bad Debts written off	113	0	0				
,, Discount Account	36	0	0				
,, Balance, being net profit carried down	325	0	0				
	£2,343	0	0		£2,343	0	0
				By Balance brought down	325	0	0

Prepare an account for submission to the Income Tax surveyor, and show the amount upon which James Brown will have to pay tax for the year 1906–7.

The profits of the business in previous years, as agreed with the surveyor, prior to any allowance for wear and tear of plant, were as follows—

		£	s.	d.
Year to Dec. 31,	1902	2,062	0	0
,,	1903	1,250	0	0
,,	1904	786	0	0

Has James Brown, in your opinion, any grounds for claiming a repayment of Income Tax for the year 1905–6?

3. You are instructed to organize the book-keeping department of a small factory. What books of account would you advise as necessary, and what rules would you lay down for the guidance of the staff and to ensure that the books are kept accurately, and well up to date? Assuming that the clerks are three in number, mention what duties you would allot to each.

4. In preparing the Profit and Loss Account of a manufacturing firm, what different methods are there of providing for the waste of an asset owing (*a*) to wear and tear, as in the case of machinery; or (*b*) effluxion of time, as in the case of a building erected upon leasehold land?

What method do you favour for providing for such waste, and why? State briefly what entries would be required to carry your suggestions into effect.

5. A. F. Walters and J. B. Smith are in partnership as Pipe Manufacturers; they also rent and work a retail shop. Profits or losses are shared as follows: A. F. Walters, two-thirds; J. B. Smith, one-third. The shop manager sends in weekly returns of all transactions, and these returns are duly incorporated in the books of the head office. You are required to prepare a Trading and Profit and Loss Account for the year ended February 28, 1906, and a Balance Sheet as on that date; a separate Trading Account is also required showing the working results of the shop.

The following is a list of the Ledger balances as extracted by the head clerk of the firm as on February 28, 1906—

LEDGER BALANCES.

	£	s.	d.
A. F. Walters, Capital Account	6,200	0	0
J. B. Smith, Capital Account	3,500	0	0
Plant and Machinery	3,280	0	0
Fixtures and Fittings—Factory	620	0	0
Purchases	11,780	0	0
Sales—Factory	19,353	0	0
Sales—Shop	7,538	0	0
Manufacturing Wages	6,433	0	0
Manufacturing Expenses	891	0	0
Rent, Rates, Taxes, Light and Insurance—Factory	360	0	0
Rent, Rates, Taxes, Light and Insurance—Shop	423	0	0
Stock on hand, March 1, 1905—Factory	3,828	0	0
Stock on hand, March 1, 1905—Shop	747	0	0
Cash Purchases—Shop	62	0	0
Sundry Creditors	2,428	0	0
Travellers' Commission—Factory	152	0	0
Office Salaries—Factory	280	0	0
Office Expenses, Postage, etc.—Factory	395	0	0
Law Expenses and Audit Fee—Factory	41	0	0
Bad Debts written off—Factory	8	0	0
Discount Account, Credit Balance—Factory	282	0	0
Reserve for Bad Debts as on March 1, 1905	74	0	0
Sundry Debtors	2,520	0	0
Furniture, Fixtures and Fittings—Shop	980	0	0
Bills Receivable	2,000	0	0
Bills Payable	78	0	0
Salaries of Manager and Assistant at shop	266	0	0
A. F. Walters, Drawings Account	1,212	0	0
J. B. Smith, Drawings Account	606	0	0
Cash at Bank	2,512	0	0
Cash in hand—Factory	7	0	0
Cash in hand—Shop	50	0	0

Before preparing the annual accounts the following adjustments are necessary—

Interest is to be credited upon the capital accounts at 5 per cent.

Reserves for: Rent, Rates, etc. Account (factory), for rent accrued due February 28, 1906, £78; Rent, Rates, etc. Account (shop), two months' rent due to February 28, 1906 (the annual rent of the shop is £360); Audit Fee, £36.

The manager of the shop is entitled, under his agreement, to a commission of 2 per cent. on the gross profit realized by the shop.

Plant and Machinery are to be depreciated at 10 per cent. Fixtures and Fittings are to be depreciated at 5 per cent.

Provision for Bad and Doubtful Debts is to be made at 2½ per cent.

The stock on hand as on February 28, 1906, was valued as follows—

	£	s.	d.
Factory	3,105	0	0
Shop	470	0	0

The goods supplied by the factory to the shop during the year were priced at £4,199 cost price.

*6. Samuel Hobson, in business in the city, finds himself insolvent. From the various books and papers in his possession the following particulars as to his financial position are forthcoming. Prepare the Statement of Affairs for submission to his creditors and a Deficiency Account in the ordinary form—

	£	s.	d.
Sundry Debtors—Good, £1,280; Doubtful, £2,800 (estimated to produce £1,000); Bad, £700	4,780	0	0
Sundry Freehold Houses, etc. (estimated to produce £2,000)	3,300	0	0
Shares—1,000 Ordinary Shares in the Cable Telegraph Co. valued at par	1,000	0	0
Mining and Railway Shares (2,500 are held as security by partly-secured creditors, and the balance by fully-secured creditors)	9,450	0	0
Loss through the unsuccessful defence of an action at law	5,420	0	0
Business Expenses	3,200	0	0
Creditors, Unsecured	16,740	0	0
Creditors, Partly-secured	5,420	0	0
Creditors, Fully-secured	3,110	0	0
Preferential Claims for Salaries and Rent	500	0	0
Private Drawings	1,200	0	0
Samuel Hobson, Capital Account	3,800	0	0
Cash at Bank	420	0	0
Bills Receivable, good	800	0	0

*7. What books, in addition to the ordinary books of account, do you consider a manufacturer should keep in order to enable him to prepare a complete system of Cost Accounts? What information do you consider that such a system would provide?

* These questions are not to be attempted by Candidates other than those sitting for the Teachers' Diploma.

LONDON CHAMBER OF COMMERCE.

Examination for Senior Commercial Certificates, 1907.

[3 hours allowed.]

Important Notice.

Candidates for the ordinary Senior Certificates may answer all or any of questions 1 *to* 5 (*both inclusive*), *but must not attempt questions* 6 *or* 7.

Candidates for the Teachers' Diploma are confined to questions 3, 4, 5, 6 *and* 7, *and must not answer questions* 1 *or* 2.

1. The Chilworth Motor Company, Ltd., was registered in 1903. The Nominal Capital of the Company consists of 200,000 6 per cent. Preference Shares of £1 each, and 200,000 Ordinary Shares of £1 each. During the year 1903, the whole of the Preference Shares and 100,000 of the Ordinary Shares were issued to the public and fully paid up, with the exception of £100 calls in arrear on the Ordinary Shares.

The Company was very successful, and, during the year 1906, offered the balance of the Ordinary Shares to the public at a

premium of 10*s.* per share. All the issue was taken up and duly allotted, payable, as to 12*s.* 6*d.* per share on application (including the premium), and 7*s.* 6*d.* per share one month after allotment. No further calls were made during the year.

Set out the Capital of the Company as it would appear in the Balance Sheet as on December 31, 1906.

2. Set out below is a statement prepared by Mr. J. Brown, a Cigarette Manufacturer, claiming to show the result of his year's trading.

Do you approve of the statement? Give brief reasons in support of your views.

December 31, 1906

Dr. Cr.

	£	s.	d.		£	s.	d.
To Capital	2,659	0	0	By Plant and Machinery	5,059	0	0
,, Sundry Creditors	9,850	0	0	,, Furniture and Fittings	187	0	0
,, Loan	2,000	0	0	,, Goodwill	1,500	0	0
,, Bank Overdraft	2,000	0	0	,, Stock	6,451	0	0
,, Balance, being profit for the year	1,591	0	0	,, Sundry Debtors	4,484	0	0
				,, Cash in hand	19	0	0
				,, J. Brown, Private Drawings	400	0	0
	£18,100	0	0		£18,100	0	0

3. How would you deal with the undermentioned items when preparing the annual accounts of a Limited Company?—

1. Transfer of £5,000 to Reserve Fund.
2. £750 commission and expenses incurred in the issue of £8,000, 4 per cent. Debentures repayable in 8 years from the date of issue.
3. Transfer of £3,500 to the Company's own Marine Insurance Fund.
4. An issue of 100 5 per cent. Debentures of £100 each at 95, repayable in 10 years from the date of issue at par.

4. Set out below is the Balance Sheet, as on December 31, 1906, of Messrs. Black & White, who are equal partners—

BALANCE SHEET, December 31, 1906

Dr. Cr.

	£	s.	d.	£	s.	d.		£	s.	d.
To Capital—							By Land and Buildings	22,065	0	0
J. Black	30,000	0	0				,, Machinery and Plant	12,800	0	0
W. White	20,000	0	0				,, Stock	10,760	0	0
				50,000	0	0	,, Sundry Debtors	4,250	0	0
,, Sundry Creditors				3,700	0	0	,, Cash at Bank	2,750	0	0
							,, Investments	1,075	0	0
				£53,700	0	0		£53,700	0	0

A Limited Company, with a Nominal Capital of £100,000, in Ordinary Shares of £1 each, was formed to acquire and carry on the business.

The vendors guaranteed the book debts, and agreed to pay off the creditors. The Company took over the whole concern with the

exception of the cash and investments, the purchase price being agreed at £60,000.

The vendors were paid, as to £50,000 in fully-paid Ordinary Shares, and as to the balance in cash.

The balance of the Share Capital was taken up by the public and fully paid up.

Show the entries necessary to close the books of the old firm, and to open those of the new Company.

5. The Postford Manufacturing Company, Ltd., was registered in 1902. The Nominal Capital of the Company consists of 40,000 5 per cent. Preference Shares of £1 each and 10,000 Ordinary Shares of £1 each.

No dividend was paid for the year ended December 31, 1905, on either class of share.

The Company's books were closed and balanced, as on December 31, 1906, on which date the Stock in hand was valued at £9,050.

The balances of the Ledger accounts were as follows—

Ledger Balances.	£	s.	d.
Purchases	15,345	0	0
Buildings	24,054	0	0
Fuel	485	0	0
Plant and Machinery	5,654	0	0
Boiler and Heating Plant	592	0	0
Repairs	472	0	0
Loose Tools	1,856	0	0
Office Expenses	362	0	0
Sales	37,950	0	0
Wages	13,671	0	0
Discount (Debit Balance)	83	0	0
Reserve for Bad and Doubtful Debts (as on December 31, 1905)	250	0	0
Salaries	1,062	0	0
Postages and Telegrams	116	0	0
Rates and Taxes	239	0	0
Travelling	317	0	0
Loan on Mortgage (charged on above premises)	8,500	0	0
Interest and Bank Charges	402	0	0
Directors' Fees	300	0	0
Stocks on hand (January 1, 1906)	8,990	0	0
Sundry Creditors	10,960	0	0
Sundry Debtors	9,847	0	0
Goodwill	4,000	0	0
Profit and Loss Account (Credit Balance from 1905)	206	0	0
Preference Share Capital	17,520	0	0
Ordinary Share Capital	8,000	0	0
Unpaid Calls	50	0	0
Bills Payable	2,100	0	0
Bank Overdraft	2,721	0	0
Cost of New Catalogue	300	0	0
Cash in hand	10	0	0

Before preparing the annual accounts the following adjustments are necessary—

Provision for Bad and Doubtful Debts is to be made at the rate of 5 per cent.

Provide for depreciation at the following rates—

Plant and Machinery Account	.	10 per cent.
Boiler and Heating Plant Account	.	10 ,,
Loose Tools Account	. . .	20 ,,

Write off one-third of the Cost of New Catalogue and one-half of the Repairs Account against the current year, carrying the balances of these accounts forward to next year.

Prepare a Trading and Profit and Loss Account for the year ended December 31, 1906, and a Balance Sheet as on that date.

* 6. The Birget Engineering Company, Ltd., purchased certain patents from Short & Sharp, under an agreement dated June 30, 1906, at a cost of £40,000. £1,000 of this sum was to be paid to the vendors in cash, and the balance in fully-paid £10 Ordinary Shares.

Including the Shares allotted as fully paid to the vendors, the Company issued Capital to the extent of £75,000, consisting of £50,000 in Ordinary Shares of £10 each (£1 on application, £4 on allotment, and £5 at the end of 3 months), and £25,000 in 5 per cent. Preference Shares of £5 each (£1 on application, £2 on allotment, and £2 at the end of 3 months).

Under the agreement with Short & Sharp, the patents passed to the Company on July 9, 1906, which date was also the date of allotment.

All the shares issued to the public were fully subscribed and duly paid for with the exception of £200 Calls in arrear on the Preference Shares. All cash was paid direct to the Company's Bankers.

Make the necessary entries in the books of the Company to give effect to the above transactions, and show how they would appear in the Company's first Balance Sheet.

* 7. In a business consisting of many departments (*e. g.* Co-operative Stores), how would you suggest that the Stock Account should be kept and Stocks recorded, so as to minimize the danger of a false return by the manager on the one hand, and to prevent pilfering on the part of dishonest employees on the other?

* These questions are not to be attempted by Candidates other than those sitting for the Teachers' Diploma.

LONDON CHAMBER OF COMMERCE.

Examination for Senior Commercial Certificates and Teachers' Diploma, 1908.

[3 hours allowed.]

Important Notice.

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Candidates for the Teachers' Diploma are confined to questions 3, 4, 5, 6 *and* 7, *and must not answer questions* 1 *or* 2.

1. The Birchets Mineral Water Company, Ltd., sends out cases of aërated water to chemists in various parts of the country "on sale or return." Each chemist is at once debited in the Company's books

with the water supplied at the price he is to obtain for it when sold, and is allowed to deduct 10 per cent. from this value when accounting for his sales. The personal accounts of all chemists so supplied are included in the Ledger balances at the end of the year. How would you deal with these accounts when preparing the Company's Profit and Loss Account and Balance Sheet?

2. The London and Westminster Grocery Company, Ltd., has a Retail Branch in Manchester, which is supplied with all goods from London. The Branch shop keeps its own Sales Ledger, receives cash against Ledger accounts, and remits the whole of the cash received daily to the Head Office. All wages and Branch expenses are drawn for by cheque weekly from the Head Office upon the Imprest System.

From the undermentioned particulars supplied by the Branch manager show how the Branch accounts would appear in the Head Office books, and prepare a Profit and Loss Account for the Branch shop for the six months to December 31, 1907.

	£	*s.*	*d.*
Six months' Credit Sales	2,387	0	0
Returns Inwards	20	0	0
Cash received on Ledger accounts	2,384	0	0
Cash Sales	1,214	0	0
Stock, July 1, 1907	720	0	0
Stock, December 31, 1907	1,121	0	0
Debtors, July 1, 1907	1,227	0	0
Goods received from Head Office	2,178	0	0
Rent, Taxes, etc., paid	375	0	0
Wages and Sundry Expenses paid	396	0	0

3. Messrs. J. Moss & Co., of London, consign goods to the cost amount of £1,500 to their agent, J. Solomon, Hong Kong, on which they pay freight, insurance, and charges, £55, drawing on him at 90 days for £1,300. They discount the Bill at Lloyds Bank, being charged £15 therefor. They receive Account Sales of the consignment for £1,729, less Agent's Commission, etc., £71, and a draft on the Bank of Hong Kong for the balance.

Make the entries necessary to record the above transactions in the books of Messrs. J. Moss & Co.

4. An English company owns a Tea Plantation in Ceylon. All the tea produced is shipped to a London firm of tea brokers, who duly furnish Account Sales and remit proceeds to the London office of the Company. The accounts of the detailed expenditure in Ceylon are kept in Indian currency, and are sent to the Head Office in London monthly. The Account Sales and the account of the remittances to Ceylon are kept in sterling.

What method would you adopt for dealing with the two currencies employed when writing up the Head Office books?

5. The Chiddingfold Manufacturing Company, Ltd., was registered with a Nominal Capital of £100,000, divided into 50,000 6 per cent. Preference Shares of £1 each, and 50,000 Ordinary Shares of £1 each.

The books of the Company were balanced as on January 31, 1908, on which date a Trial Balance, containing the following balances, was extracted from the books—

LEDGER BALANCES.

	£	s.	d.
Carriage, Dock Dues and Freight	4,773	0	0
Advertising	649	0	0
Fuel, Lighting and Water	2,163	0	0
Postage and Incidentals	590	0	0
Catalogues and Price Lists	416	0	0
Packing	542	0	0
Machinery Repairs	177	0	0
Stable Expenses	913	0	0
Office Expenses, Stationery, and Telephone	1,022	0	0
Ordinary Share Capital Account	5,000	0	0
Six per cent. Preference Share Capital Account	20,000	0	0
Debenture Capital Account (200 Debentures of £100 each at 4½ per cent.)	20,000	0	0
Employees' Superannuation Fund	4,360	0	0
Debenture Interest	855	0	0
Directors' Salaries	1,095	0	0
Buildings Account	903	0	0
Machinery and Plant Account	8,750	0	0
Stock on hand (February 1, 1907)	38,672	0	0
£5,000 Consols (at cost) (Investment of Employees' Superannuation Fund)	4,360	0	0
Cash in hand	210	0	0
Horses and Carts	720	0	0
Transfer Fees	1	0	0
Purchases	102,664	0	0
Purchases Returns	3,748	0	0
Factory Wages	12,704	0	0
Salaries and Travellers' Commission	10,691	0	0
Rents, Rates, Taxes and Insurance	3,173	0	0
Sales	174,493	0	0
Sales Returns	6,619	0	0
Discount Account (Debit Balance)	2,762	0	0
Bad Debts written off	203	0	0
Bank Charges and Interest	42	0	0
Legal Expenses and Audit Fee	418	0	0
Company's Contribution to Superannuation Fund	516	0	0
Debtors as per Sales Ledger	19,876	0	0
Creditors as per Bought Ledger	4,340	0	0
Bills Payable	320	0	0
Cash at Bank	5,784	0	0

Before closing the books the following adjustments are necessary—

	£	s.	d.
1. Telephone Rent paid in advance	25	0	0
2. Travellers' Commission owing	342	0	0
3. Rent due	379	0	0
4. Insurance unexpired	541	0	0
5. Reserve for Discounts, etc., on Sundry Debtors	500	0	0

6. Write off the following Depreciations—Machinery and Plant, 10 per cent.; Carts and Horses, £214.

The Stock on hand as on January 31, 1908, was valued at £34,839.

The Directors decide to write off the whole of the Buildings

Account and to transfer £7,000 to Reserve Account from the profits of the year.

You are required to prepare a Trading and Profit and Loss Account for the year ended January 31, 1908, and a Balance Sheet as on that date.

*6. On January 1, 1907, A. owes B. £6,000, for which B. receives two Acceptances from A., one for £2,000 payable in two months, the other for £4,000 payable in four months, in each case from January 1, 1907. B. duly discounts both these Acceptances with his bankers on January 3, 1907, at 4 per cent.

Before the first Bill becomes due A. requests B. to assist him in taking it up by providing him with £1,000 in cash, and drawing a third Bill on A. for that amount at three months from the due date of the first Bill, plus interest at 5 per cent. per annum; B. agrees to this proposal and advances the money, discounting the Bill with his bankers at 4 per cent.

A week before the second Bill for £4,000 falls due A. again asks B. to assist him to the extent of £2,500. B., however, is not in a position to do this, and, as his bankers will not discount any more of A.'s Acceptances, he arranges with A. to draw on him (B.) two Bills for £1,131 16*s.* 8*d.* and £1,408 3*s.* 4*d.* at two months and three months respectively from the due date of the £4,000 Bill. B. duly accepts these two bills and remits them to A., who discounts them with his bankers at 4 per cent., and, assisted by the proceeds, duly meets the £4,000 Bill. B. also meets his two Bills on maturity. On June 7, 1907, A. becomes bankrupt, leaving his third Bill unpaid. Make the necessary entries in B.'s books to give effect to the above transactions.

*7. State briefly how you would explain to a Book-keeping class the principles of the "Double Account System," and enumerate some classes of undertakings to which it is applicable.

* These questions are not to be attempted by Candidates other than those sitting for the Teachers' Diploma.

LONDON CHAMBER OF COMMERCE.

Examination for Senior Commercial Certificates and Teachers' Diploma, 1909.

[3 hours allowed.]

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Candidates for the Teachers' Diploma are confined to questions 1, 2, 5, 6 *and* 7, *and must not answer questions* 3 *or* 4.

1. A Limited Company was formed to take over an old-established manufacturing business. The purchase price was fixed, by an agreement dated January 1, 1909, at £60,000, payable as follows—

   £25,000 in £1 Ordinary Shares of the Company issued as fully paid.

   £25,000 in 5 per cent. Debentures, repayable in 1919 at 105.

   £10,000 in cash, payable on February 1, 1909.

The Company was duly registered with a nominal capital of £100,000, consisting of 100,000 Ordinary Shares of £1 each. On January 15, 1909, 15,000 Ordinary Shares were issued to the public

and fully paid up, with the exception of £150 calls in arrear upon the allotment call.

The following is a list of the Assets and Liabilities taken over by the Company—

		£	s.	d.
Sundry Creditors		10,000	0	0
Bills Payable		5,000	0	0
Sundry Debtors	£20,000			
Less Reserve for Bad Debts	1,500			
		18,500	0	0
Stock-in-trade		10,000	0	0
Machinery and Plant		25,000	0	0
Loose Tools		4,000	0	0
Bills Receivable		2,500	0	0
Cash at Bank		5,000	0	0

Make the Journal entries necessary for opening the Company's books and the entries required to record the issue of shares to the public, assuming that 10*s.* per share is payable on application and 10*s.* per share on allotment.

2. Jones, for the mutual and temporary accommodation of himself and Brown, draws upon the latter a Bill of Exchange at three months for £600, dated January 1, 1908. Jones discounts this Bill immediately at his bankers, the rate of discount being 5 per cent., and hands half the proceeds to Brown.

Brown, for a similar purpose, and at the same time, draws a Bill at three months on Jones for £300. This he discounts at his bankers at 5 per cent. and hands half the proceeds to Jones. Brown becomes a bankrupt on March 31, 1908, and a first and final dividend of 5*s.* in the £ is paid on his estate on June 30, 1908.

Write up Brown's account in Jones's books. Assume, in each case, that one-half of the charge for discounting the Bill is chargeable to Brown and one-half to Jones.

3. You are preparing the Balance Sheet of a Limited Company of which you are the chief accountant, and find that there are Bills under discount amounting to £10,750. On going through the books you discover facts which point to the probability that £1,000 worth of these Bills will be dishonoured on maturity, but that there is a reasonable chance of eventually receiving 10*s.* in the £ on the £1,000. How would you deal with these Bills under discount, and how should they appear in the Company's published accounts?

4. Robinson, on August 31, 1907, buys from Tuck & Co. 150 tons of coal at 7*s.* 6*d.* a ton at the pit mouth, and pays for them at once by cheque, being allowed a discount for cash of 2½ per cent. He pays 1*s.* 3*d.* a ton for carriage by rail and 9*d* a ton for cartage. He sells the coal to a Sheffield Manufacturing Company at 12*s.* 6*d.* a ton on September 14, and draws a Bill, at two months, for the amount. The Bill is dishonoured at maturity, but is immediately paid by the Manufacturing Company upon demand being made to them. Draw the Bill of Exchange and make the entries necessary to record the above transactions in Robinson's books, and show what profit or loss Robinson made upon the deal after charging 10 per cent. on the original cost of the coal for establishment expenses.

5. The Engine and Motor Company, Ltd., has a Nominal Capital of £100,000, divided into 75,000 Ordinary Shares of £1 each and 2,500 6 per cent. Cumulative Preference Shares of £10 each.

The books of the Company were balanced on March 31, 1908, on

which date a Trial Balance, containing the following balances, was extracted from the books—

Ledger Balances.	£	s.	d.
Freehold Premises	12,675	0	0
Plant and Machinery	11,595	0	0
Ordinary Share Capital (50,000 shares, fully called)	50,000	0	0
Calls in Arrear	2,000	0	0
Preference Share Capital (2,500 shares, fully paid)	25,000	0	0
Stock-in-trade, March 31, 1907	14,665	0	0
Office Furniture	545	0	0
Loose Tools, March 31, 1907	3,125	0	0
Patterns	3,155	0	0
Patents	1,535	0	0
Profit and Loss Account (Credit Balance, March 31, 1907)	1,545	0	0
Goodwill Account	3,000	0	0
Sundry Debtors	31,215	0	0
Cash at Bank, Current Account	985	0	0
Cash at Bank, Deposit Account	10,000	0	0
Cash in hand	45	0	0
Sales	107,015	0	0
Sales Returns	975	0	0
Purchases	71,245	0	0
Purchases Returns	1,675	0	0
Sundry Creditors	12,805	0	0
Bills Payable	8,765	0	0
Manufacturing Wages	25,595	0	0
Repairs and Renewals of Plant	1,245	0	0
Coal	2,765	0	0
Gas and Water	475	0	0
Rates, Taxes and Insurance	865	0	0
Office Salaries	750	0	0
Trade Expenses	2,165	0	0
Bad Debts written off	615	0	0
Reserve for Bad Debts (March 31, 1907)	1,165	0	0
Directors' Fees	300	0	0
Carriage	4,155	0	0
Interest on Bank Deposit Account	45	0	0
Audit Fee and Legal Expenses	205	0	0
General Expenses	945	0	0
Discounts, allowed to Debtors	1,235	0	0
Discounts received from Creditors	875	0	0
Preliminary Expenses	350	0	0
Travelling Expenses	465	0	0

Before closing the books the following adjustments are necessary—

(1) A portion of the premises has been sublet, since January 1, 1908, at £80 per annum, and the rent due to date has not been paid or passed through the books.

(2) The insurance unexpired amounts to £30.

(3) Eleven months only of the Office Salaries have been paid. One month's salaries were owing on March 31, 1908.

(4) Make the Reserve for Bad Debts equal to an amount representing 5 per cent. on the Sundry Debtors (excluding Sundry Debtors for rent).

(5) Write off the whole of the preliminary expenses.

(6) Write off the following depreciations—

(*a*) Plant and Machinery	. . .	10 per cent.
(*b*) Office Furniture	. . . .	10 ,,
(*c*) Patterns	. . . .	15 ,,
(*d*) Patents	. . . .	20 ,,

The Stock-in-trade on March 31, 1908, was valued at £23,995, and the Loose Tools at £2,730.

You are required to prepare Trading and Profit and Loss Accounts for the year ended March 31, 1908, and a Balance Sheet as on that date.

What dividend, if any, would you recommend the Directors to propose, taking into consideration the fact that the dividend on the Preference Shares for the year ended March 31, 1907, has not been paid?

*6. A Limited Company has a Nominal Capital of £250,000, in 25,000 shares of £10 each. Of these, 4,000 shares were issued to the vendors as fully paid, 8,000 shares were subscribed for by the public, and during the first year £5 per share was called up. 2,000 shares were issued, as fully paid, to persons other than the vendors, in payment for property purchased. On the 8,000 shares subscribed for by the public there had been paid at the end of the first year—

On 6,000 shares, the full amount called.
,, 1,250 shares, £4 per share
,, 500 shares, £3 ,,
,, 250 shares, £2 ,,

The Directors forfeited the 750 shares on which less than £4 had been paid.

You are required to submit Journal entries recording the Capital transactions of the Company, and to set out the Capital as it should appear in the Company's Balance Sheet at the end of the first year.

*7. Describe briefly the books of account which you would expect to find in use in a bank. State what the "General Ledger" of a bank should contain, and what information you would expect it to afford.

* These questions are not to be attempted by Candidates other than those sitting for the Teachers' Diploma.

SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.

Intermediate.

1. Rough & Strong were in partnership, sharing profits; as to Rough, three-fifths, and Strong, two-fifths. Strong agreed to retire, and the Balance Sheet taken out at date of dissolution showed the following position—

Balance Sheet.

	£	*s.*	*d.*		£	*s.*	*d.*
To Rough . .	2,900	0	0	By Cash in hand	50	0	0
,, Strong . .	1,250	0	0	,, Sundry Debtors	1,000	0	0
,, Sundry Trade Creditors .	500	0	0	,, Stock-in-trade .	2,000	0	0
				,, Goodwill . .	500	0	0
				,, Machinery and Plant . .	850	0	0
				,, Fixtures and Furniture .	250	0	0
	£4,650	0	0		£4,650	0	0

Rough agreed to continue the business and take over the Assets and Liabilities, subject to the following allowances being made to him: Book Debts, 5 per cent.; Stock-in-trade, 15 per cent.; Machinery and Plant, £150; Fixtures, £50; Creditors, 3 per cent. Draft accounts showing the adjustments under these terms and the final Capital Accounts.

At annual stocktaking on June 30, 1907, the following items have not been brought into account. Illustrate how you would deal with them.

Old Machinery sold, £167.
Fire Insurance, paid March 31, 1907, £46 10*s.*
Income Tax paid, £48 3*s.*
Doubtful Debts, amounting to the sum of £465.
Yearly Rent of Premises due September 29, 1907, £260 0*s.* 0*d.*

[*December* 1908.

2. A. and B. are equal partners, and on June 30, 1908, their Balance Sheet stood as follows—

LIABILITIES.	£	*s.*	*d.*	ASSETS.	£	*s.*	*d.*
To Sundry Creditors	5,000	0	0	By Stock-in-trade	3,500	0	0
,, Bank Overdraft	1,500	0	0	,, Sundry Debtors	6,100	0	0
,, A., Capital Account . .	2,100	0	0	,, Fixtures and Fittings . .	250	0	0
,, B., Capital Account . .	1,600	0	0	,, Cash in hand .	50	0	0
				,, Investments .	300	0	0
	£10,200	0	0		£10,200	0	0

It is arranged that C. shall be taken into partnership, and as a result of the negotiations it is agreed (as between A. and B. only) to make the following adjustments in the above Balance Sheet—

(*a*) To write off Bad Debts amounting to £1,500.
(*b*) To write down the Fixtures and Fittings to £100.
(*c*) To Depreciate the Stock-in-trade by 15 per cent.
(*d*) To write off Loss upon Investments, 25 per cent.
(*e*) To Create a Goodwill of £1,000.

C. then introduces £1,000 as his third share of the Capital, to which amount it has been agreed that that of the other partners shall be adjusted. State what entries will be necessary to carry out these transactions, and prepare an amended Balance Sheet of the firm immediately after C. has become a partner.

[*December* 1908.

3. From the following Trial Balance as at January 1, 1908, prepare Manufacturing Account, Profit and Loss Account, and Balance Sheet.

	Dr. £	*s.*	*d.*	*Cr.* £	*s.*	*d.*
Purchases (Materials)	16,000	0	0			
Discounts (Balance)	1,300	0	0			
Wages (Productive)	6,500	0	0			
Sales				30,000	0	0
Salaries	2,000	0	0			
Travelling Expenses	500	0	0			

	Dr. £	s.	d.	Cr. £	s.	d.
Carriage	275	0	0			
Insurance	150	0	0			
Commissions	325	0	0			
Rent and Rates	500	0	0			
Cash in hand	25	0	0			
Cash in Bank	2,725	0	0			
Stable Expenses	195	0	0			
Repairs	105	0	0			
Sundry Expenses	55	0	0			
Mortgage and Interest to date				3,050	0	0
Mortgage Interest	150	0	0			
Buildings	4,000	0	0			
Machinery	1,500	0	0			
Horses and Carts	500	0	0			
Stock on hand, Jan 1, 1907	5,750	0	0			
Capital				10,655	0	0
Sundry Debtors and Creditors	3,250	0	0	2,100	0	0
	£45,805	0	0	£45,805	0	0

Make provision for Rent and Rates unexpired, £30; Depreciation on Buildings at 2½ per cent. per annum; Machinery at 5 per cent.; Horses and Carts at 7½ per cent.; Bad Debts, £150; Liability for Insurance, £20; Discount on Sundry Debtors and Creditors at 2½ per cent.

Stock on hand, January 1, 1908, £6,075. [*December* 1908.

4. A trader who keeps Purchase and Sales Ledgers, but all of whose subsidiary books are common to both Ledgers, desires to prove the postings of each Ledger separately. For this purpose notes are kept of all entries made in the Ledgers, of which the following is the summary to March 31, 1909.

You are required to ascertain the *total* Dr. or Cr. balances in each Ledger at that date.

SALES LEDGER.

1909.		£	s.	d.
Jan. 1.	Debtor Balances	9,415	15	8
,, 1.	Credit Balances	102	4	6
	Sales per Day Book	9,348	0	1
	Cash paid to discharge over-payments	86	14	6
	Inward Returns	801	2	7
	Sales carried to Purchases Ledger	1	15	0
	Credits transferred to Private Ledger	114	11	5
	Sales made and debited on March 31, not entered in Day Book until April 1	17	18	10
	Cash received	9,645	15	1
	Transfer from Dr. side Sales Ledger to Private Ledger	6	12	4
	Discounts	308	9	10
	Transfers from Cr. side Sales Ledger to Purchases Ledger	544	7	0

PURCHASES LEDGER.

			£	s.	d.
Jan.	1.	Balances owing	4,454	18	1
,,	1.	Dr. Balances	0	6	11
		Discounts	96	5	5
		Purchases	12,460	14	3
		Sundry allowances credited as Inward Returns	6	4	11
		Outward Returns	55	16	8
		Cash paid	5,924	7	11
		Payments made, per Petty Cash	2	1	7
		Sales brought from Sales Ledger	1	15	0
		Transfers from Dr. side of Purchases Ledger to Sales Ledger	544	7	0
		Cash received	0	10	0

[*June* 1909.

5. C. and D. carry on business in partnership. The following are the particulars of the firm's profits for the three years ending 1908—

	1906.	1907.	1908.
	£	£	£
Share of Net Profits—C., two-thirds	1,200	1,300	1,100
Share of Net Profits—D., one-third	600	650	550
Salary—C.	200	200	200
Salary—D.	400	400	400
Interest on Capital—C.	350	400	450
Interest on Capital—D.	150	200	250
Depreciation allowed	900	900	900
Income Tax, Schedule D	130	140	140

From above figures prepare a return showing the liability of each partner for the year 1909-10 for Income Tax Assessment, as required by Surveyor of Taxes.

[*June* 1909.

SOCIETY OF INCORPORATED ACCOUNTANTS AND AUDITORS.

FINAL.

1. The T. R. Y. Co., Ltd., has been formed with a Capital of £30,000 to take over the business of a Wholesale Confectioner. £10,000 is paid for Goodwill, £5,000 for Plant and Machinery, and £5,000 for Stock. The vendor takes £5,000 in cash, and the remainder in 5 per cent. Preference £1 Shares as fully paid. The remaining £15,000 are issued as Ordinary Shares, payable 2*s*. 6*d*. on application, 10*s*. on allotment, 5*s*. in one month, and 2*s*. 6*d*. whenever required, at three months' notice. Raise the proper accounts in the Company's books, showing how they stand at the end of one month. [*December* 1908.

2. Journalize and post in K. W. G.'s books the following transactions—

April 1. Draws upon H. B. at one month for £200 (for Goods supplied).

,, 4. Draws upon W. R. at two months for £300 (for Goods supplied).

Both of these Bills he discounts with his Bankers at the rate of 6 per cent. per annum.

April 28. Remits cheque, £100, to H. B. to enable him to meet Bill.
May 4. Bill met. Draws on H. B. fresh Bill for sum advanced at one month with 5 per cent. interest added. Bill met at maturity. This was not discounted, but collected by Bank in the usual way.
,, 7. W. R.'s Bill returned unpaid. 6*s.* 6*d.* expenses.
,, 8. W. R. sends Goods value £150 to K. W. G. in part discharge of his debt. This is subject to a discount of 2½ per cent. as being virtually a cash transaction.
,, 10. K. W. G. draws upon W. R. at two months for remainder of account, adding expenses on returned cheque, cost of fresh Bill stamp, and interest for the term at the rate of 5 per cent. per annum.
July 13. W. R.'s Bill returned unpaid. 5*s.* expenses.

[*December* 1908.

3. P. offers to take M into partnership upon equal terms upon payment of a premium of £2,500. But as M. cannot find the money for three years, the following arrangement is agreed upon. M. is to have, to start with, a managing salary of £100 per annum out of the net profits. Then the residue is divided as to P. two-thirds, M. one-third. M. will draw one-third of his share of the profits, leave one-third in the business, and hand over the remainder to P. in part payment. Draw up the partnership accounts for each of the three years, showing the amount due from M. to P. at the end of the period. *Previous to the division* charge interest at the rate of 5 per cent. upon P.'s capital of £6,000, which interest he will draw out in addition to his share of the profits; also credit M. with interest at the same rate upon any capital he has accumulated in the business. His interest will not be drawn, but added to his Capital.

	£	*s.*	*d.*
Profit, 1st year	1,600	0	0
Profit, 2nd year	2,000	0	0
Profit, 3rd year	2,200	0	0

[*December* 1908.

THE INSTITUTE OF CHARTERED ACCOUNTANTS.

INTERMEDIATE.

1. What is the difference between a Balance Sheet and a Statement of Affairs? Prepare a short Balance Sheet at December 31, 1907, of a firm of private traders (with two partners), and show the same figures in the form of a Statement of Affairs. [*Nov.* 1908.

2. How would you recommend the keeping of the books of a Company, having its Head Office in London, with Branches in Paris, Berlin, and Amsterdam? How would you deal with the figures at December 31, when the Balance Sheet is prepared? [*Nov.* 1908.

3. What is the percentage rate of Gross Profit on ?—

(1) The *sale price* of goods purchased for the sum of £1,000, and sold for £1,333 6*s.* 8*d.*

(2) The *purchase price* of goods bought for £783 6*s.*, and sold for £979 2*s.* 6*d.* [*Nov.* 1908.

4. In the case of the business of three trading Companies being amalgamated as at January 1, 1908, what entries would you recommend should be made for bringing all the Liabilities and Assets into the new Company? Give specimen entries. [*Nov.* 1908.

5. On March 31, 1905, a Merchant contracted to supply to D. E. 10,000 tons of Welsh Coal at 12*s.* 6*d.* per ton, free on board Cardiff, to be delivered at the rate of 2,000 tons per month as required, and paid for by Bill at one month from date of delivery. At the same time he covered himself by making a contract with the Y. Colliery Company to deliver to his order the same quantity at the same rate and in like manner at 11*s.* 9*d.* per ton, to be paid in cash, less 2½ per cent., 14 days after delivery. Two thousand tons were delivered on April 10, 1905, and the terms of the contracts in respect thereof were duly observed.

Make the requisite entries recording the transactions in the Merchant's books down to April 30, 1905, and state in what books each entry should appear. [*May* 1905.

6. On November 30, 1904, J. Draper sold to B. Turner furniture amounting to £165, and received on account his Acceptance for £100 at three months from the said date. J. Draper got the Bill discounted at the rate of 4 per cent. by his bankers. The Bill was dishonoured, and with 5*s.* for noting and expenses debited by the bank to J. Draper's account. B. Turner arranged to pay off his liability on April 2, 1905, including interest at 5 per cent. on the dishonoured Bill.

Make Journal entries in respect of the above, post up B. Turner's Ledger account, and bring down the balance payable on April 2, 1905. [*May* 1905.

7. John Gates's books are kept by Single Entry.

On December 31, 1907, his Capital was £7,500.

On December 31, 1908, his books showed the following balances—

	£	s.	d.
Machinery and Plant	3,000	0	0
Furniture and Fittings	400	0	0
Stock	4,500	0	0
Book Debts	1,250	0	0
Cash drawn by him during the year	300	0	0
Goods taken by him during the year	50	0	0
Cash at Bank	300	0	0
Cash in hand	25	0	0
Sundry Creditors	1,500	0	0

Allow 5 per cent. interest on his Capital (taking no notice of withdrawals). Write off 5 per cent. from Machinery and Plant and Furniture and Fittings, and 3 per cent. off Book Debts, and prepare Balance Sheet showing his Capital Account in detail. [*May* 1909.

8. A. Jones and B. Evans carry on business in partnership, sharing profits and losses in the proportion of three-fifths and two-fifths.

The following is the Trial Balance of their books on December 31, 1908—

	Dr. £	s.	d.	*Cr.* £	s.	d.
A. Jones, Capital, Jan. 1, 1908				12,000	0	0
B. Evans, Capital, Jan. 1, 1908				8,000	0	0
Sales				50,000	0	0
Purchases	20,000	0	0			
Stock, Jan. 1, 1908	8,900	0	0			
Plant	7,000	0	0			
Fixtures	500	0	0			
Carriage	500	0	0			
Salaries and Wages	15,000	0	0			
Commission	500	0	0			
Works, Office, and Travelling Expenses	3,250	0	0			
Bank charges	50	0	0			
Rent, Rates, and Taxes	600	0	0			
Bad Debts	200	0	0			
Bills Receivable	1,000	0	0			
Trade Debtors	8,000	0	0			
Trade Creditors				1,500	0	0
Wages owing				300	0	0
Discount off Sales	1,250	0	0			
Discount off Purchases				500	0	0
Bank	4,500	0	0			
Cash	50	0	0			
A. Jones, Drawing Account	600	0	0			
B. Evans, Drawing Account	400	0	0			
	£72,300	0	0	£72,300	0	0

The Stock at the end of the year amounted to £9,300.

Allow each partner £500 for salary, and 5 per cent. interest on Capital (nothing on Drawing Account). Write off 5 per cent. from Plant and Fixtures, and provide £250 for Doubtful Debts and $2\frac{1}{2}$ per cent. for discount off Debtors.

Make up Trading, Profit and Loss, and Capital Accounts, and Balance Sheet. [*May* 1909.

9. John Howson is unable to meet his engagements. His Liabilities are—

	£	s.	d.
Underbank Banking Company, Ltd. (as security for which they hold £1,500 Debenture Stock of the Berkshire Railway Company)	1,200	0	0
Unsecured Creditors	4,000	0	0
His Father (who holds a Mortgage on the premises)	3,000	0	0
Wages	100	0	0
Chief Rent (half-year)	15	0	0
Bills Discounted (one-half of which will probably rank against the Estate)	500	0	0

and his Assets are—

Buildings, of the value of	2,000	0	0
Machinery, of the value of	1,500	0	0
Fixtures, etc., of the value of	200	0	0
Debenture Stock of the Berkshire Railway Company, value	1,500	0	0

	£	s.	d.
Stock, estimated to realize	1,500	0	0
Book Debts, Good	1,000	0	0
Book Debts, Doubtful (estimated to realize £100)	200	0	0
Book Debts, Bad	150	0	0
Cash	15	0	0

Prepare the statement for submission to his Creditors. [*May* 1909.

10. A. Edwards & Co. sold their business to a Company for the sum of £220,000, to be paid for by 125,000 £1 Ordinary Shares and £95,000 in cash. Their Assets consisted of—

	£	s.	d.
Freehold Land and Buildings, valued at . .	28,000	0	0
Machinery and Plant, etc., valued at . . .	25,000	0	0
Book Debts, certified by the Auditors at . .	45,000	0	0
Stocks and Material in Progress (valued at cost or under)	140,000	0	0
Advertising Plates, etc.	25,000	0	0

and their Liabilities were—

	£	s.	d.
Trade Creditors	40,000	0	0
Loans on Mortgage	45,000	0	0

The Capital of the Company was £250,000, consisting of 125,000 Ordinary Shares of £1 each and 125,000 6 per cent. Preference Shares of £1 each, issued at 21*s.* a share.

The Preference Shares were subscribed by the public as follows—

On Application, 1*s.* 0*d.* a share.
On Allotment, 2*s.* 6*d.* ,,
On First Call, 10*s.* 0*d.* ,,
On Second Call, 7*s.* 6*d.* ,,

Make the Journal entries for the above transactions in the Company's books, and set out the Balance Sheet thereafter.
[*May* 1909.

11. From the following Trial Balance, prepare a Trading and Profit and Loss Account (distinguishing between gross and net profit) and a Balance Sheet, providing a further Reserve for Bad Debts at the rate of 1½ per cent. on the sales, writing off 10 per cent. depreciation from the Machinery and Plant Account, and assuming the stock at December 31, 1908, to be £3,645 12*s.* 2*d.*—

	Dr. £	s.	d.	*Cr.* £	s.	d.
Bad Debts written off	263	0	0			
Bank Overdraft				1,725	0	0
Book Debts	4,213	0	0			
Capital, January 1, 1908 . . .				22,442	0	0
Carriage Outwards	156	0	0			
Cash in hand	77	0	0			
Creditors				2,333	0	0
Discounting Bills	25	0	0			
Discounts (Sales)	146	0	0			
Drawings on account of Profits .	500	0	0			
Freehold Property	15,000	0	0			

	Dr. £	s.	d.	Cr. £	s.	d.
Freight and Carriage Inwards	63	0	0			
Income Tax, Schedules A and D	246	0	0			
Interest on Bank Overdraft	52	0	0			
Machinery and Plant	6,500	0	0			
Manufacturing Wages	3,922	0	0			
Miscellaneous Trade Expenses	77	0	0			
Office Furniture	362	0	0			
Office Salaries	726	0	0			
Printing, Stationery and Advertising	78	0	0			
Purchases	12,851	0	0			
Rates	123	0	0			
Repairs and Maintenance of Plant	116	0	0			
Repairs to Property	27	0	0			
Reserve for Bad and Doubtful Debts				331	0	0
Returns (Purchases)				89	0	0
Royalties	1,172	0	0			
Sales				25,298	0	0
Stock, January 1, 1908	5.523	0	0			
	£52,218	0	0	£52,218	0	0

[*May* 1909.

12. A. is in business with a Capital of £50,000, made up as follows—

	£	s.	d.
Book Debts	20,000	0	0
Plant	5,000	0	0
Stock	30,000	0	0
Cash	5,000	0	0
	£60,000	0	0
Less Liabilities to Creditors	10,000	0	0
	£50,000	0	0

He converts his business into a Limited Liability Company, with a Nominal Capital of 100,000 shares of £1 each, 75,000 of which, including Vendor's Shares, are issued and fully paid.

The price payable by the Company, which takes over the whole of A.'s Liabilities and Assets, and undertakes to pay the preliminary expenses of formation, £600, is £70,000, half in fully-paid shares and half in cash.

Prepare accounts, assuming the transactions to be completed, showing—

(1) The Vendor's account in the books of the Company,
(2) The Balance Sheet of the Company. [*May* 1909.

13. Harris & Dovat are in partnership as Tailors. Profits or losses are shared equally. On December 31, 1905, the Ledger balances of the firm were as follows—

	Dr. £	s.	d.	Cr. £	s.	d.
J. Harris, Capital Account (January 1, 1905)				10,500	0	0
J. Harris, Drawings Account (including Interest)	1,000	0	0			
R. Dovat, Capital Account (January 1, 1905)				3,800	0	0
R. Dovat, Drawings Account (including Interest)	450	0	0			
Sundry Debtors	16,026	0	0			
Bank Loan				1,500	0	0
Furniture and Fittings	832	0	0			
Sundry Creditors				2,005	0	0
Cash in hand	22	0	0			
Stock (as on January 1, 1905)	1,293	0	0			
Purchases	4,261	0	0			
Wages	2,097	0	0			
Reserve for Bad Debts (December 31, 1904)				620	0	0
Salaries	575	0	0			
Sales				8,920	0	0
Cash at the Bank	120	0	0			
Trade Charges	156	0	0			
Discount Account				119	0	0
Carriage	65	0	0			
Office Expenses	58	0	0			
Rent, Rates, and Taxes	412	0	0			
Audit Fee	52	0	0			
Interest Account	45	0	0			
	£27,464	0	0	£27,464	0	0

Stock was taken on December 31, 1905, and was agreed by the partners at £2,000.

Before closing the books, the following adjustments are necessary—

(1) Reserve £125 for salaries due on December 31, 1905, but not yet paid or passed through the books.

(2) Reserve half a year's interest to December 31, 1905, on the Bank Loan at 5 per cent. per annum.

(4) Make a provision of 5 per cent. on the outstanding Debtor balances for Bad and Doubtful Debts.

(4) Credit each partner with interest on Capital at the rate of 5 per cent. per annum.

(5) Provide for Depreciation on Furniture and Fittings Account at the rate of 10 per cent.

Prepare a Profit and Loss Account for the year ended December 31, 1905, and a Balance Sheet as on that date.

[*Nov.* 1906.

14. On January 1, 1905, X. and Y. purchased the business and freehold premises of Smith & Co. for £25,000. Of this amount X. found £10,000 and Y. £5,000. The balance of £10,000 was left

by the vendor upon mortgage of the freehold premises at 4 per cent. per annum.

X. was to devote only such time as he thought fit to the business, but Y. was to devote the whole of his time, for which services he was to receive a salary of £300 per annum prior to the division of profits.

Each partner was to be credited with interest upon his Capital at 5 per cent. per annum, and debited with the same rate of interest upon all sums drawn from the business. Profits and losses were to be divided equally.

The profits of the business for the year ended December 31, 1905, prior to any of the above adjustments, amounted to £3,825.

During the year X. drew £520 in equal amounts on January 1 April 1, November 1, and December 1.

Apart from the management salary to which he was entitled, Y. drew £420 in equal amounts on April 1, November 1, and December 1.

Show how the Capital Accounts of the two partners would appear in the firm's Balance Sheet at December 31, 1905. [*Nov.* 1906.

15. How would you treat the undermentioned items in preparing the Annual Accounts of a Limited Company?—

(1) Premium of £5,000 paid for a 21 years' lease of a City Warehouse.
(2) £525 expended in costs of issue of £10,000 4½ per cent. Debentures, repayable 10 years from the date of issue.
(3) £3,000 expended in structural alterations to the above-mentioned warehouse.
(4) Drawings of a Managing Director in excess of his commission and fees, £1,500.
(5) Expenditure of £2,000 on advertising a new article introduced to the public during the second half of the Company's financial year. The sales of the article to the close of the year amounted to £750, and there is every prospect of considerable growth in the sales if advertising be continued. [*Nov.* 1906.

16. The Westholme Engineering Company, Ltd., was registered in 1900 with a Nominal Capital of 500,000 shares of £1 each. During the same year 250,000 of these shares were issued and fully paid up.

The balance of the Share Capital was offered to the public in 1905 at a premium of 5*s.* per share. Of these shares 200,000 were applied for and duly allotted, payable, as to 7*s.* 6*d.* per share on application (including the premium) and 2*s.* 6*d.* per share one month after allotment. No further call was made during the year. The expenses of the second issue amounted to £1,025, of which amount £500 was written off during the year.

Show how the above transactions would appear in the Company's Balance Sheet as on December 31, 1905. [*Nov.* 1906.

17. The following is a summary of the Ledger balances of A.'s business on June 30, 1904—

	Dr. £	s.	d.	*Cr.* £	s.	d.
Cash	1,000	0	0			
Debtors	13,500	0	0			
Creditors				2,600	0	0
Reserve for Bad Debts				500	0	0
Freehold Premises	3,000	0	0			
Stock	7,250	0	0			
General Reserve Account				2,500	0	0
Capital				23,850	0	0
Plant and Machinery	2,600	0	0			
Loans	2,100	0	0			
	£29,450	0	0	£29,450	0	0

As on July 1, 1904, the above business is bought by the B. Company, Ltd., who take over all the Assets and Liabilities at the book values, paying for them in shares of the Company, and pay £10,000 cash for Goodwill. The B. Company's Balance Sheet on June 30, 1904, was as follows—

	£	s.	d.		£	s.	d.
To Share Capital authorized £100,000				By Cash	20,000	0	0
				By Debtors £10,000 *Less* Reserve 1,000			
To Shares issued and paid up	40,000	0	0		9,000	0	0
				By Leasehold Premises	2,000	0	0
To Creditors	5,000	0	0	By Stock	12,000	0	0
To General Reserve Account	2,050	0	0	By Plant and Machinery	4,500	0	0
To Profit and Loss Account	7,000	0	0	By Loans	6 550	0	0
	£54,050	0	0		£54,050	0	0

Prepare an amalgamated Balance Sheet as on July 1, 1904, assuming the cash for the Goodwill of A.'s business is not paid over till afterwards. [*Dec.* 1904.

18. Prepare Trading and Profit and Loss Accounts for 1904 from the following figures—

	£	s.	d.
Rent of Offices	250	0	0
Insurance	5	0	0
Coals and Gas	20	0	0
Telephone	20	0	0
Wages	455	0	0
Stores used	78	0	0
Stock at January 1, 1904	6,782	0	0
Stock at December 31, 1904	7,566	0	0
Sales	10,651	0	0
Purchases	6,901	0	0
Sales Returns	156	0	0
Purchases Returns	230	0	0
Interest on Capital	500	0	0
Carriage	226	0	0

	£	s.	d.
Horse-keep	120	0	0
Depreciation of Horses	50	0	0
Depreciation of Furniture and Fixtures	55	0	0
Office Cleaning	40	0	0
Office Salaries	300	0	0
Audit Fee	42	0	0
Pensions	100	0	0
Bad Debts	212	0	0
Sundry Office Expenses	75	0	0
Travelling Expenses	60	0	0

[*Dec.* 1904.

19. The following is the Trial Balance of A., B. and C. on December 31, 1903—

	£	s.	d.		£	s.	d.
Bank	1,000	0	0	A.'s Capital	20,000	0	0
Investments, at cost	3,000	0	0	B.'s Capital	15,000	0	0
Purchases	45,000	0	0	C.'s Capital	10,000	0	0
Wages	75,000	0	0	Sales	145,000	0	0
Stock, January 1	20,000	0	0	Bank Interest	100	0	0
Cash in hand	25	0	0	Creditors	4,500	0	0
Office Expenses	350	0	0	Bills Payable	7,500	0	0
Salaries	560	0	0				
Buildings	5,000	0	0				
Plant and Machinery	20,000	0	0				
Furniture and Fittings	300	0	0				
A.'s Drawings	500	0	0				
B.'s Drawings	400	0	0				
C.'s Drawings	300	0	0				
Rates, Taxes and Insurance	1,200	0	0				
Discounts	815	0	0				
Bank Commission	150	0	0				
Debtors	25,000	0	0				
Bills Receivable	2,900	0	0				
Repairs	600	0	0				
	£202,100	0	0		£202,100	0	0

The Stock at the end of the year amounted to £21,500.

By the partnership deed A. was to have a salary of £500, B. £400, and C. £300, and each was to have 5 per cent. interest upon his Capital. Profits and losses were to be divided two-fifths, seven-twentieths, and five-twentieths respectively.

Write off 20 per cent. from Investments, 2½ per cent. from Buildings, 5 per cent. from Plant, Machinery, and Furniture and Fittings, and 2½ per cent. from Debtors and Creditors. Provide £500 for odd days' Wages, allow £30 for Insurances paid in advance, and £2,000 for possible deterioration of Stock.

Prepare Trading and Profit and Loss Accounts, Partners' Capital Accounts, and Balance Sheet. [*Dec.* 1904.

THE INSTITUTE OF CHARTERED ACCOUNTANTS.

FINAL.

1. A., B. and C. agreed to purchase a business in New York and carry it on for a stated period. A. invested $4,000, B. $25,000, and C. $20,000. The partnership agreement provided that they should share profits and losses in the proportion of A. 5, B. 3, C. 1. At the end of the term the Balance Sheet was as follows—

LIABILITIES.		$	ASSETS.	$
Creditors—			Cash . . .	500.00
Trade Accounts .		69,000.00	Debts Receivable .	68,000.00
Loan . . .		16,000.00	Stock of Goods, as per Inventory .	47,000.00
Partners' Capital—			Machinery and Plant	35,000.00
A. .	$47,500.00		Shares and Bonds, at market price .	22,000.00
B. .	30,000.00			
C. .	10,000.00			
		87,500.00		
		$172,500.00		$172,500.00

The business was sold, and the Assets realized $140,000 gross. The costs and expenses of the sale amounted to $5,000. Show the final accounts of the partners, and convert the balance of each account into sterling, the rate of exchange being 4.80.*

[*June* 1903.

2. Define an "Account Current," and make out such an account for North & Co. in respect of the following transactions with East & Co.—

1902.		
Sept.	16.	Goods sold to East & Co., £100, due October 1.
Oct.	1.	Received cash from East & Co., £45.
,,	21.	Goods bought of East & Co., £250, due December 1.
Nov.	1.	Paid to East & Co., cash, £165.
Dec.	1.	Paid to East & Co., cash, £150.
,,	5.	Goods bought of East & Co., £250, due January 1.
,,	10.	Goods bought of East & Co., £110, due January 1.
1903.		
Jan.	1.	Paid cash to East & Co, £300.
,,	9.	Goods sold to East & Co., £10, due February 1.

The account to be made up to February 1, 1903. Interest to be at 6 per cent., which may be calculated by months instead of days.

[*June* 1903.

3. The Eastern Rice Elevator Company, Ltd., makes up its books annually, and on December 31, 1901, the Trial Balance was as follows—

* *I. e.* $4.80 = £1.

	£	s.	d.	£	s.	d.
Share Capital				195,000	0	0
Plant and Machinery	40,000	0	0			
Depreciation Fund				7,000	0	0
Tugs and Barges	44,000	0	0			
Transit Silo Building Account	60,000	0	0			
Wages	4,000	0	0			
Coal	247	0	0			
Lighterage	118	0	0			
Dock Dues	285	0	0			
Earnings				15,000	0	0
Directors' Fees	500	0	0			
Salaries	500	0	0			
Interest on Loans, etc.	1,000	0	0			
Law Costs	200	0	0			
Audit Fee	150	0	0			
Rent, Rates and Taxes	955	0	0			
Goodwill	75,000	0	0			
Stores on hand, December 31, 1901	1,500	0	0			
Directors' Commission	154	0	0			
Office Furniture	500	0	0			
Cash at Bank	1,000	0	0			
Debtors	3,000	0	0			
Sundry Creditors				4,420	0	0
Loans				13,000	0	0
Repairs	100	0	0			
Stores used during the year	1,000	0	0			
Insurance of Plant, etc.	211	0	0			

Transfer £3,000 to the Depreciation Fund.

The creditors for loans hold 5 per cent. Mortgage Debentures for £18,000, part of an authorized issue of £30,000, by way of security.

Write off £700 in respect of obsolete Plant and Machinery.

The Authorized Capital is £200,000, divided into 25,000 Ordinary Shares of £5 each and 75,000 6 per cent. Cumulative Preference Shares of £1 each.

The issued Share Capital is—

25,000 Ordinary Shares of £5 each, issued to shareholders in the vendor company as fully paid.

15,000 6 per cent. Cumulative Preference Shares of £1 each, issued to the same fully paid.

5,000 6 per cent. Cumulative Preference Shares of £1 each, issued as fully paid, in exchange for Debentures of the vendor company.

50,000 6 per cent. Cumulative Preference Shares issued at par for cash.

There is a liability on contracts for work not yet executed amounting to £5,000.

Prepare a Balance Sheet at December 31, 1901, with Trading and Profit and Loss Accounts for the year ended that date. [*June* 1903.

4. A Limited Company, the registered office of which is in London, has a Share Capital of £100,000, all issued and fully paid. It has a house in Paris and has in Hamburg a house which is a branch of

the Paris house. The following are the Balance Sheet figures for the respective places on June 30 last—

	London. £	Paris. Francs.	Hamburg. Marks.
Share Capital, 10,000 Shares of £10 each	100,000		
Creditors (including Bills payable maturing July 31, 1903, £31,567 9*s*. 6*d*.)	37,893	62,075	50,620
Reserve for Bad Debts and Discounts (London, Paris and Hamburg)	21,250		
Reserve Fund	25,000		
London, Paris and Hamburg Banking Co. (advances on Bills per Contra)	25,697		
Profit and Loss, forward from 1902	1,260		
Profit and Loss, half-year June 30, 1903	3,509	106,025	81,560
London House balance		3,125,000	
Paris House balance			1,200,000
	£214,609	3,293,100	1,332,180

	London £	Paris. Francs.	Hamburg. Marks.
Cash	69	575	860
Stock	728	506,300	470,660
Debtors	296	1,213,150	808,120
Furniture, Fittings, etc.	526	20,300	25,020
London, Paris, and Hamburg Banking Co.—			
Current Account	2,370	52,775	27,520
Deposit Account	30,000		
Bills Receivable in hand	620		
Bills Receivable deposited with London, Paris, and Hamburg Banking Co. against advances (per Contra)	30,000		
Investments	25,000		
Paris House balance	125,000		
Hamburg House balance		1,500,000	
	£214,609	3,293,100	1,332,180

Taking the Paris figures at 25 francs to the £, and the Hamburg figures at 20 marks to the £, draw up a Balance Sheet for submission to a meeting of the Shareholders. [*Dec.* 1903.

5. C. D., Merchant, London, received from W. and R., of Brisbane, Merchants, an order for one ton of high-speed steel at £120 per ton f.o.b. Liverpool.

The account was to be paid on presentation of C. D.'s draft at sight with documents attached, freight and charges to be paid by the consignee.

C. D. executed the order. State what records of the transaction

should be made in C. D.'s books. Make a copy of the Bill drawn by C. D. on W. and R., and state what documents would be attached to it. [*Nov.* 1906.

6. A. and B. carried on business in partnership as Engineers. On June 30, 1906, their Balance Sheet showed the following state of affairs—

ASSETS.				£	s.	d.
Cash in hand				50	0	0
Cash at Bank				825	0	0
Freehold Land and Buildings				3,500	0	0
Fixed Plant and Machinery				8,800	0	0
Loose Plant and Tools				3,500	0	0
Stock-in-trade				6,672	0	0
Patterns and Drawings				2,000	0	0
Patents				500	0	0
Sundry Debtors—Open Accounts	£16,725	0	0			
Less Provision for Bad Debts	1,672	0	0			
				15,053	0	0
Bills Receivable				2,300	0	0
				£43,200	0	0

LIABILITIES.				£	s.	d.
Sundry Creditors on Open Account				7,600	0	0
Bills Payable				3,600	0	0
Executors of C., deceased—Loan on Mortgage of Land and Buildings, contra				4,000	0	0
Capital, A.	£14,000	0	0			
Capital, B.	14,000	0	0			
				28,000	0	0
				£43,200	0	0

They agreed to sell their business to a Limited Company to be called A., B. & Co., Ltd., which is registered with a Capital of £100,000, divided into 40,000 6 per cent. Cumulative Preference Shares of £1 each and 60,000 Ordinary Shares of £1 each, to take over the concern as on and from July 1, 1906. The price to be paid for the Assets and Goodwill was £50,000, and, in discharge thereof, the Company was to pay the liabilities of A. and B., take over the mortgage (all interest was paid to June 30), and allot to A. and B. in equal proportions 10,000 6 per cent. Cumulative Preference Shares of £1 each and 20,000 Ordinary Shares of £1 each, both fully paid, the balance to be paid in cash.

Payment for one Ordinary Share was received from each of the first seven Subscribers to the Memorandum of Association, and a temporary advance of £4,000 arranged with the Bankers.

The allotment to the vendors was made on July 15, and the balance of cash paid over on that date.

Draft the entries to be made in the Company's books of first-entry to give effect to the above arrangements and transactions.

[*Nov.* 1906.

7. The following are particulars of a partnership concern—Capital: A., £5,000; B., £4,000; and C., £3,000; sharing profits in proportion. D. is a limited partner with £5,000, and is entitled to 6 per cent. thereon, and no more, if the profits in any year are equal to that rate all round.

On January 1, 1905, the balances on the books, in addition to the above sums, were: Loan from Bankers, £3,000; Sinking Fund for Leases, £1,500; Undrawn Profits, A., £250; B., £200; and C., £150; and D., for Undrawn Interest, £250; Leases and Buildings at cost, £5,000; Plant and Machinery, £4,500; Stock, £6,150; Book Debts, £6,400 (*less* Reserve against same, £400); Office Furniture, £260; and Cash at Bankers, £440.

The trading transactions during the year 1905 were: Purchases, all for cash, £25,650; Sales, £34,000; Stock, December 31, 1905, £4,500.

The Cash transactions comprised Book Debts received, £32,000; Purchases, £25,650; Salaries and Wages, £1,500; General Charges, £492; Rent and Taxes, £600; Interest on Bank Loan, £120; Drawings, A., £500; B., £400; C., £300; and a payment to D. of £250.

Increase Sinking Fund by 8 per cent. on cost of Leases, etc.; allow 7 per cent. depreciation on Plant and Machinery, and 5 per cent. on Office Furniture; and reserve £200 further against Book Debts.

Prepare Trading and Profit and Loss Accounts, ascertain and distribute the net profits, and produce a Balance Sheet as at December 31, 1905. [*Nov.* 1906.

8. White, Gratton & Co.'s Balance Sheet on December 31, 1906, showed the following Assets and Liabilities—

	£	*s.*	*d.*
Land and Works	146,000	0	0
Stock and Work in progress	140,200	0	0
Patents, Licences, etc.	10,000	0	0
Book Debts	75,000	0	0
Cash at Bankers and in hand	6,500	0	0
Bills Receivable	7,000	0	0
Creditors	71,200	0	0

A Limited Company was formed with a Share Capital of £300,000, divided into 150,000 £1 Ordinary and £150,000 £1 5 per cent. Preference Shares, and a Debenture Capital of 1,000 £100 4 per cent. Debentures, and took over the assets of the firm, except cash and bills, and accepted the liability to creditors, for the consideration of £350,000, payable in 50,000 fully-paid Ordinary and 50,000 fully-paid Preference Shares and 500 Debentures, and the balance in cash.

A prospectus was issued and the balance of the Shares and Debentures was offered to the public as follows—

Payable.	Per Share.	Per Debenture.
On Application	2*s.* 6*d.*	20 per cent.
On Allotment	7*s.* 6*d.*	30 ,,
On First Call	5*s.* 0*d.*	25 ,,
On Second Call	5*s.* 0*d.*	25 ,,

All the Shares and Debentures were applied for and were allotted, and payments were made when due.

Make the necessary entries in the Company's books recording the transactions and the discharge of the indebtedness to the vendor firm, and show how the Balance Sheet of the Company will appear. [*May* 1908.

9. A., B., C., and D. are partners, and their profits for the three years ending December 31, 1906, are as follows—

	£	s.	d.
For the year 1904	3,000	0	0
For the year 1905	3,500	0	0
For the year 1906	2,750	0	0

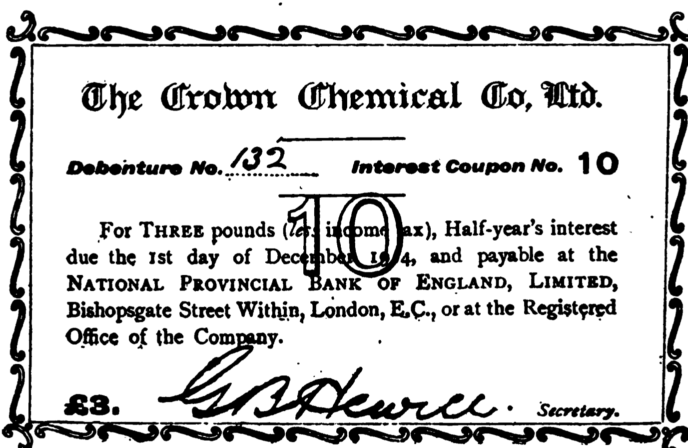
shared in the proportions of A. two-fifths, B. three-tenths, C. one fifth, and D. one-tenth. The Capital of each is £6,000, £4,000, £3,000, and £2,000 respectively, 5 per cent. interest on which has been charged against each year's profit and loss.

A. has an interest in another business producing to him an income of £500 a year; B. has income from investments producing £190 a year, in respect of which tax has been deducted, and pays £50 a year life insurance premium; C. has no income outside the business, but his wife has an income from investments of £30 a year; and D. has no outside income, but his wife has a business bringing in £200 a year.

Prepare the Income Tax Return, showing the amounts the individual partners would have to pay upon for the year 1907–8. [*May* 1908.

INTEREST COUPON

(*see* page 277)



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1910.

[THIRD EDITION.]

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(*See* **Vade Mecum**, p. 40.)

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